AR66

2002 ANNUAL REPORT

Winspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

stronger together

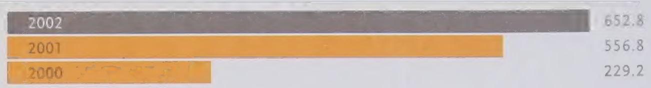
Corus™

ENTERTAINMENT

financial highlights

YEAR ENDED AUGUST 31 *(thousands of Canadian dollars except per share amounts)*	2002	2001[1]	2000
results of operations			
Revenues	652,784	556,825	229,230
Income before depreciation, amortization, interest, other and income taxes (EBITDA)[2]	116,496	123,916	65,536
Net income (loss)	(166,037)	128,167	155,984
Cash flow derived from operations	229,803	159,156	54,304
Capital expenditures	27,927	37,045	9,975
per share data			
Cash flow per share – basic	5.39	3.83	1.63
Earnings (loss) per share – basic	(3.90)	3.09	4.67
Weighted average number of shares outstanding – basic (thousands)	42,621	41,539	33,379
financial position			
Total assets	1,925,156	2,269,811	1,429,003
Long-term debt, including securitized borrowing	649,005	710,301	297,355
Shareholders' equity	851,015	1,167,607	826,678
Net debt[3] / EBITDA[2]	5.40	5.78	(1.14)

TOTAL REVENUES *(in $ millions)*



TOTAL CASH FLOW DERIVED FROM OPERATIONS *(in $ millions)*

EBITDA[2] *(in $ millions)*

TOTAL EBITDA[2] MARGINS *(in percentages)*

(1) Restated – see note 2(a) to the consolidated financial statements.

(2) EBITDA means net income (loss) before minority interest, equity earnings, income tax expense (recovery), goodwill and intangible impairment loss, asset write-downs, hedge transaction loss, restructuring charges, other income, gain on sale of investments, interest expense, amortization and depreciation.

(3) Net debt = Long-term debt, including current portion, plus securitized borrowing and bank overdraft less cash and cash equivalents.

fiscal year in review

2001

SEPTEMBER, 2001

Corus was nominated for eight Gemini Awards: four nominations for Nelvana Ltd., three for YTV and one nomination for Balmur Corus Music.

OCTOBER, 2001

Corus announced its three-point plan for fiscal 2002:

1 reduce debt by $100 to $150 million;
2 accelerate our move to achieve operating margins of 30% and;
3 focus on consolidating our core assets.

Corus received approval from the Canadian Radio-television and Telecommunications Commission (CRTC) to acquire a controlling interest in Telelatino Network Inc. Corus acquired shares that increased its total interest in the specialty channel to 50.5% from 20%.

Corus disposed of 1,000,000 non-voting shares of Astral Media Inc. and used the proceeds to repay a securitized borrowing.

NOVEMBER, 2001

Corus announced a restructuring initiative to centralize key administrative functions to eliminate duplication and streamline processes. Finance, Human Resources, Business Affairs and Communications were centralized.

Corus announced a workforce reduction of approximately 310 positions.

Corus announced that Nelvana had acquired all proprietary rights to Babar. The acquisition included 100 per cent of all trademarks and copyrights to the Babar property, as well as the de Brunhoff family's financial interests in the brand.

Corus received approval from the CRTC to acquire the Women's Television Network (WTN).

Corus received approval from the CRTC to acquire three radio stations owned by Tri-Co Broadcasting Limited, extending its reach in Eastern Ontario and increasing coverage between Kingston and Montreal.

DECEMBER, 2001

Corus sold its 29.9% stake in The Comedy Network Inc. for $36 million.

2002

JANUARY, 2002

Nelvana was granted rights from Berenstain Enterprises, Inc. to develop, produce and distribute episodic television series and individual programs based on The Berenstain Bears brand.

Nelvana was granted rights for Beyblade that include broadcasting all 51 episodes, manufacturing home videos and acting as an exclusive agent to facilitate the importation and distribution of toys and merchandise by Takara and Hasbro, Inc. based on the series.

Corus announced guidelines for a new $15 million Women's Programming Fund devoted to the creation of exceptional programs for Canadian women.

FEBRUARY, 2002

Corus and DMX Music Inc. announced transactions that will result in the exchange of their ownership interests in digital music subscription services to residential and commercial customers in Canada.

Moody's Investors Service and Standard and Poor's (S&P) assigned initial corporate ratings to Corus of Ba3 and BB stable respectively. Corus' senior subordinated notes were also assigned ratings of B1 by Moody's and B+ by S&P.

MARCH, 2002

Corus issued U.S. $375 million aggregate principal amount of 8¾% senior subordinated notes due 2012 at a price of 99.186% of their aggregate principal amount. Corus increased the size of the offering from the amount initially announced in order to meet excess demand. The net proceeds of the offering were used to repay existing bank debt.

Two Nelvana productions, Braceface and Rolie Polie Olie, were nominated for Daytime Emmy Awards.

APRIL, 2002

Corus sold Klutz to Scholastic Inc. for approximately U.S. $43 million in cash plus a three-year earn-out based on revenue.

Corus rebranded and relaunched its women's specialty network (WTN) as W Network and for the first time, implemented a dual feed of its signal to better serve Western Canadian viewers.

Corus disposed of one million non-voting shares of Astral Media Inc. for $50.5 million. The proceeds were used to repay the securitized borrowing.

Walt Disney Television International acquired season six of Nelvana's Emmy-winning series Rolie Polie Olie, a movie-length special and two additional movies, Rolie Polie Olie: The Great Defender of Fun and The Santa Claus Brothers, all for worldwide broadcast.

MAY, 2002

Corus launched Max Trax, a digital music subscription service available to homes in Canada through cable and satellite.

Corus acquired a 50% interest in The Locomotion Channel, an animation pay television service targeting young adults available in over 27 countries and seven million homes throughout Latin America and Iberia (Spain and Portugal). The service will be operated in partnership with The Hearst Corporation.

Corus completed the sale of Viewer's Choice, its western-based pay-per-view service, to Shaw Communications Inc.

JULY, 2002

Nelvana reorganized its Production Department to create a more flexible and team-based production model. The reorganization resulted in approximately 65 positions being eliminated.

Corus and the Canadian Broadcasting Corporation (CBC) reached an agreement that would see CBC purchase Corus' 70% ownership stake in the digital service, Country Canada. CRTC approval was received in October 2002.

AUGUST, 2002

Corus Radio launches MOJO Radio – The All New AM 730 in Vancouver, building on the successful launch of the same format in Toronto last year.

Corus reached an agreement to sell its Oshawa radio stations ckdo am and CKGE FM to Durham Radio Inc. (subject to CRTC approval).

OCTOBER, 2002

Corus' digital service SCREAM was added to Shaw Communications Inc.'s distribution to viewers in Western Canada. Launched in September 2001, SCREAM is Canada's third most popular digital channel for adults.

Corus and Shaw Communications Inc. announced the introduction of Canada's first subscription-based Video-on-Demand (SVOD) service, Movie Central express.


in the long run,
we only hit
what we aim at
BASED ON A QUOTE BY HENRY DAVID THOREAU (1817 – 1862)

CORRECTION NOTICE

Please note that on page 34 of the annual report, the statement, "JR Shaw and the members of his family and the corporations owned and/or controlled by JR Shaw and members of his family (the "JR Shaw Group") currently own approximately 83% of outstanding Corus Class A Voting Shares." should read, "JR Shaw and the members of his family and the corporations owned and/or controlled by JR Shaw and members of his family (the "JR Shaw Group") currently own approximately 79% of outstanding Corus Class A Voting Shares."

Corus has assembled a collection of strategic assets that operate through three synergistic business units – Radio, Television and Content. In just three years, the Company has taken its place as a market leader in Canada in both radio and specialty television.

One out of every two English Canadians watches a Corus specialty television service each week.* Nearly one out of every three Canadians over the age of 12 tunes into a Corus radio station weekly.** Around the world, in over 200 countries and dozens of languages, children and their families are entertained every day by millions of books, videos, toys and television animation that bring to life Corus' portfolio of globally recognized character brands like Babar and Franklin the Turtle.

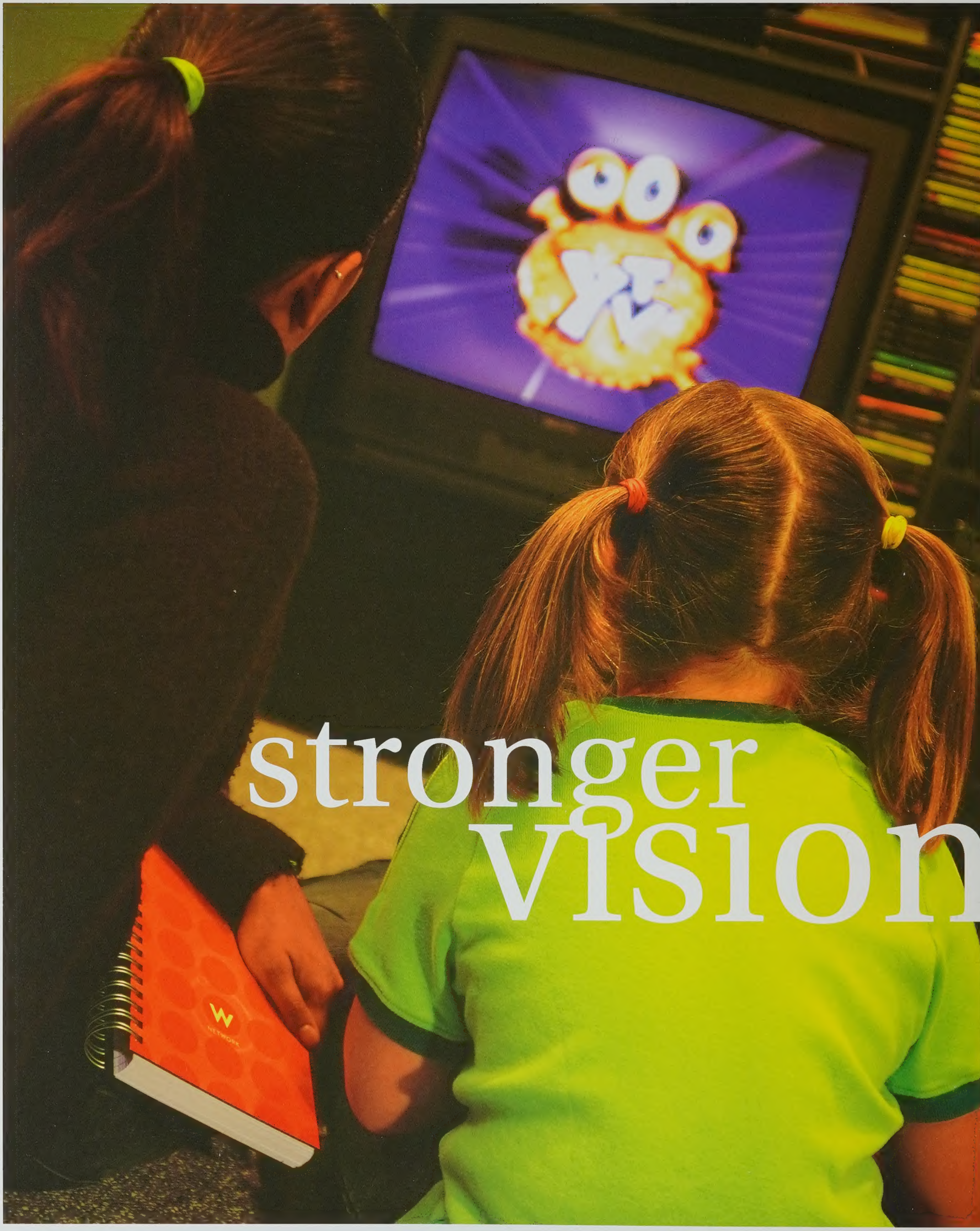
The Company's assets include: 50 radio stations (pending CRTC approval of the divestiture of its two Oshawa radio stations) clustered in major markets in British Columbia, Alberta, Manitoba, Ontario and Quebec; analog specialty television services: YTV, Treehouse TV, TELETOON (40%), Telelatino, CMT and W Network (formerly WTN); digital television networks: Discovery Kids, Documentary Channel, Edge TV and SCREAM; Western Canada's premium television service Movie Central; three conventional over-the-air television stations; digital advertising services for television, and a residential digital subscription music service, Max Trax. Corus also owns Nelvana, a leading global producer and distributor of animation and branded children's content, Kids Can Press, Canada's leading children's book publisher, and a 50% interest in The Locomotion Channel, an animation channel reaching 7 million subscribers in Latin America and Iberia (Spain and Portugal).

Together, these assets represent a powerful media and entertainment choice for consumers, customers, and investors.

Together, the business units of Corus Entertainment have the strength to achieve the vision of being globally recognized as Canada's leading entertainment company.

(* SOURCE: BBM NATIONAL METERS SEPTEMBER 2001 TO AUGUST 2002)
(** SOURCE: BBM FALL 2001)

TABLE OF CONTENTS



stronger vision

television

Corus Entertainment has built Canada's strongest portfolio of specialty television networks. This year Corus Television has offered a new level of choice to television viewers, from commercial-free preschool programming on Treehouse TV, to W Network (formerly WTN), the channel of choice for Canadian women, to the eclectic and highly popular horror movies on the digital service SCREAM. More than 13 million people each week choose to be entertained by Corus Television.* More Canadians aged 2–49 are watching Corus' group of services than those of any other provider.*

Corus Television has a well-earned reputation for programming and marketing to niche audiences. YTV is respected around the world as an innovator in specialty broadcasting. A portfolio of music services including CMT, Edge TV and Max Trax are an essential part of the Canadian music scene. The recent rebranding of WTN to W Network has attracted new audiences. Movie Central, Corus' western-based pay television service, continues its momentum of success with must-see blockbuster commercial-free programming that Canadians want.

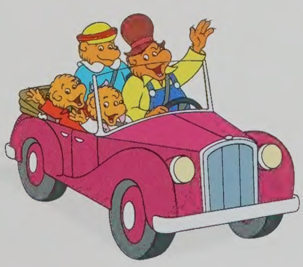
The conventional television stations in Central Ontario and cable advertising business, Digital ADventure, continue to thrive as they access the benefits of belonging to an integrated television operation that provides real opportunities for efficiency and growth.

With the vision to build on the strength of its Canadian success and explore new opportunities for international presence, Corus' television division continues to raise the bar with quality programming, innovative marketing and operational excellence.

(* SOURCE: BBM NATIONAL METERS SEPTEMBER 2001 TO AUGUST 2002)

Sue Johanson
W NETWORK

Sue Johanson is heading into her eighth season as host of W Network's wildly popular Sunday Night Sex Show.



The Berenstain Bears
TREEHOUSE TV

Nelvana's newest production, based on the internationally celebrated children's book series by STAN and JAN BERENSTAIN, The Berenstain Bears animated series brings to life the enduring tales of Bear County's favourite furry family.

stronger voice

radio

Corus Entertainment has assembled the strongest collection of radio stations in Canada – outperforming its closest competition in terms of audience tuning by more than 20%.[*] With top formats and leading share in the country's top markets, Corus Radio uses the collective strength of its 50 stations (subject to CRTC approval) to deliver to its listeners the best in programming and to customers the best in creative and personalized service.

That commitment to being the best is paying off. Corus remains at the forefront of Canadian radio with industry leading margins and financial performance.

Nearly 8 million people – 30% of all Canadians over 12 years of age – tune into a Corus radio station each week.[*] Audiences tune in and stay connected to Corus radio stations in their homes, at work, in their cars, on the Web and in their communities. And Corus Radio has given back to Canadian communities in record amounts. In 2002, Corus' group of radio stations raised in excess of $9.5 million for deserving charities and community groups. Charitable organizations accessed more than 4,100 hours of radio air-time on Corus stations for public service announcements.

Corus radio stations have consistently demonstrated their strength in programming. The Company programs the top four News/Talk stations in Canada in terms of ratings (CJOB, CKNW, CHED, CHML).[**] This year, Toronto stalwart Q107 replaced top performing U.S. programming with local hosts and maintained audience share, CFOX Vancouver and Edge 102 in Toronto promoted new Canadian talent through sneak peek concerts, and CKOI in Montreal continued to attract more than one million listeners weekly.

The strong voice of Corus Radio is heard from Vancouver to Montreal in rock, pop, talk, adult contemporary and country formats, setting the standard for radio in Canada.

(* SOURCE: BBM SPRING 2002 RADIO SURVEY)
(** SOURCE: RATINGS ARE BASED ON THE AVERAGE QUARTER HOUR REACH OF THE STATION IN ITS OWN MARKET.)

Scruff Connors
MOJO RADIO (TORONTO)

Legendary morning radio personality and master of the prank phone call, Connors has blazed a trail of radio mayhem across North America for over 20 years.

The Winsticker Promotion
THE PEAK 107.3 (CALGARY)

Canada's own Holly McNarland performs live at The Peak 107.3 studios for contest winners and employees.

stronger presence

content

Corus Entertainment's Content division has established a global presence as the provider of quality children's entertainment in over 200 countries around the world. Through Nelvana and Kids Can Press, Corus characters continue to take on new life in television animation, books, toys, videos, apparel and on-line activity. The strength of these brands represents long-term value for the Company.

Nelvana boasts some of the world's largest and most influential television networks as its customers. In fact, Nelvana dominates the children's programming lineup of important U.S. television networks like PBS, ABC Family, Nick Jr., and Kids WB. This broad-based exposure in the world's largest television market represents a platform for the continued growth of international sales and merchandising success.

Always at the forefront of digital animation, Nelvana continues to break new ground. In 2002, the Company restructured its production model to maximize the use of new technologies and the efficiencies of a team-based approach. Moving the majority of its productions to a fully digital platform remains a priority for the Company. This ability to embrace opportunities afforded by digital techniques, while at the same time improving quality and reducing cost, puts Nelvana on the front lines of the industry's evolution. Nelvana is responding to the changing needs of its broadcast customers and is prepared to maximize the benefits of a revitalized market for animation.

Together, Nelvana and sister company YTV demonstrated the power and strength of their combined business focus on building brands and generating revenue this year when they worked together to launch the Beyblade phenomenon in Canada. With strategic promotion and programming, YTV introduced Nelvana's Beyblade on Canadian television and helped contribute to an immediate nationwide retail sell out of the Beyblade toy. This example of Corus' integration strategy is a model for more great things to come from the strength of working together.

Nelvana continues to represent the power of animation to ignite imagination and create new platforms for entertainment.

Rolie Polie Olie
NELVANA

The Emmy Award-winning Rolie Polie Olie, now in its 6th season, was among the first completely computer-generated 3D animated TV series for preschool audiences.

Beyblade
NELVANA

Nelvana has embarked on a global campaign to transform Japan's sports entertainment phenomenon into a worldwide kids' franchise.


stronger
team

our employees

Corus Entertainment works to attract, develop and retain the most talented individuals while responding to the evolution of business by offering a workplace that embodies the Company's values, fosters a positive attitude and embraces diversity.

Corus employees are the cornerstone of the Company's success. More than 46% of full-time staff are more than just employees, they are also valued shareholders through participation in the Employee Share Purchase Plan. Highly skilled, exceptionally creative, and extraordinarily committed to the products and services they provide – Corus employees demonstrate the Company's core values of innovation, accountability, initiative, teamwork, and knowledge, both in the workplace and in the community.

Through workplace training, focus on work-life balance, respect for the individual, recognition of employees and commitment to corporate growth, Corus strives to be an employer of choice. The Company invests in training and personal development, providing employees with a variety of programs that support advancement through education. In 2002, Corus launched "Radio Sales University", the only on-site training program of its kind in Canada, designed to give sales personnel tools and expertise that rival the best companies in the world.

A positive "Respect At the Workplace" policy provides the foundation for Corus employees to thrive in an environment free of discrimination in all forms. With a workforce that is represented evenly by women and men, Corus boasts female representation at the Board of Director level that is almost unparalleled in Canada: 33% compared to the Canadian average of 9.8%.* It is also an industry leader in female representation at the senior management level. Nearly 40% of Corus' senior managers are women, compared to the Canadian private sector average 14%**, showing that at Corus, the glass ceiling has been cracked.

Corus will continue to distinguish itself by providing an enviable work environment that both attracts and nurtures talented, respected and highly trained employees with the collective strength to deliver entertainment to the world.

(* SOURCE: THE 2001 CATALYST CENSUS: WOMEN BOARD OF DIRECTORS IN CANADA)
(** SOURCE: THE 2000 CATALYST CENSUS: WOMEN CORPORATE OFFICERS IN CANADA)

corporate giving

Corporate giving is an integral part of Corus Entertainment's operations within its many radio, television and content companies. Through cash donations, fundraising activities, free air time for Public Service Announcements and other gifts in kind, Corus and its employees work to assist, strengthen and enrich the communities and industries in which it operates.

The value of Corus' donations and fundraising activities in 2002 year totalled nearly $10 million, led by the outstanding activity of CKNW Radio in Vancouver which alone raised more than $1 million for their Orphan's Fund. Nearly 5,000 hours of valuable radio and television air time were turned over to Canadian charities to assist them in delivering their messages. The Company's charitable giving is backed by tens of thousands of volunteer staff hours, supporting hundreds of deserving organizations and causes.

Corus' group of companies has helped to establish and support many important charities and not-for-profit organizations. Corus is a founding partner of Kids Upfront, a program that distributes tickets to high profile entertainment events to children who are otherwise unlikely to ever experience a concert, professional sporting event or theatre. Corus is also a founding member and supporter of Concerned Children's Advertisers, an organization that promotes media literacy and life skills to children and their families.

YTV is a founding partner of the national Kids Help Phone. Nelvana employees have raised thousands of dollars for the Children's Wish Foundation. Corus supports and directly contributes to the United Way on an annual basis with an employee donation matching program and is a proud supporter of the National Arts Centre's National Youth and Education Trust. Corus' 630 CHED in Edmonton is home to one of the longest running charitable toy drives in Canada. For more than 45 years, 630 CHED's "Santas Anonymous" has been making the holidays a joyous time for under-privileged kids. In 2001, this charitable initiative, run entirely by volunteers, surprised over 24,500 deserving children with new toys for Christmas.

Pledge Day
CKNW AM 980 (VANCOUVER)

Corus Radio's CKNW raised more than $1,000,000 in pledges last December to benefit the CKNW Orphan's Fund.

Santas Anonymous
CHED AM 630 (EDMONTON)

Created in 1955, CHED's Santas Anonymous is still making the holidays a joyous time for less fortunate kids. In 2001, Santas Anonymous surprised over 24,500 children with new toys for Christmas.

stronger community

The deep commitment to being a socially responsible corporate citizen is reflected in Corus Entertainment's Caring Company designation through its participation in Imagine, Canada's national program to promote public and corporate giving, volunteering and support for the community.

Corus' corporate giving philosophy is a concrete example of the Company's core values at work. It also reflects how important these values are, not only to Corus and its employees, but to Canadian communities and the thousands of people who benefit from the Company's corporate giving and promotional support.


stronger
together

message to shareholders

Corus Entertainment emerged on the Canadian entertainment scene in 1999 with a vision to become Canada's leading entertainment company. In the three years since, we have increased our revenues from approximately $160 million to approximately $650 million. We have grown organically and through strategic acquisitions. We have expanded our vision – today, we aim to become globally recognized as Canada's most influential entertainment company. Your company has assembled a group of assets that can achieve that vision by being stronger together. This year, we moved quickly and aggressively to maximize our business synergies.

We addressed structural and market changes in the media and entertainment sector head on with a three-point plan:

1. Reduce our net debt to EBITDA from 4.8x in 2001 to 4.0x by year-end 2002.
2. Accelerate our progress towards overall EBITDA margins of 30%.
3. Improve our operating effectiveness and the performance of existing assets through consolidation of our back office functions and a slowdown in our acquisition activity.

Despite the challenges of an economic slowdown and a significant reduction in advertising spending and program buying worldwide, we executed well on our plan. At year-end, our net debt had been reduced to approximately $630 million and represents 4.0x EBITDA (excluding the write-down in film investments), consistent with our revised outlook. Our EBITDA margins (excluding the write-down in film investments) improved from 22% to 24% and during the year, we successfully consolidated key support functions including Finance, Planning, Human Resources, Legal and Business Affairs, Communications, Facilities and IT, providing Corus with significant long-term cost savings and efficiencies.

The year was highlighted by a number of important accomplishments in each of our operating divisions – Radio, Television and Content:

- We maintained ad revenue growth for both radio and television every quarter, despite one of the worst advertising markets in years.
- Our radio division posted revenues that were ahead of the industry in Canada's top eight markets.
- We successfully acquired, integrated and rebranded our women's channel as W Network. Significant cost savings and synergies were realized by relocating the operations to our Toronto television production facilities. Audiences during the fall season launch period increased by roughly 50% over last year.

- We sold Klutz to a truly synergistic buyer (Scholastic Inc.) on favourable terms and ensured the Klutz employees would have a viable future in publishing.
- We demonstrated the true strength of our integration strategy and capitalized on our synergies with key initiatives. Our radio division provided extensive support to the rebranding of W Network and Movie Central driving awareness and tuning; YTV provided promotional and programming support to Nelvana productions like Medabots and Beyblade which contributed to significant success with retail toy sales.
- Our first high-yield bond issue was extremely well received and significantly oversubscribed. We issued U.S. $375 million in 8¾% senior subordinated notes. The net proceeds of the offering were used to repay our bank debt.
- We kicked off our international expansion strategy through the acquisition of a 50% interest in The Locomotion Channel, an animation channel in Latin America and Iberia (Spain and Portugal) with considerable growth potential and an output arrangement for Nelvana productions with our highly respected partner – The Hearst Corporation.
- We restructured the production operations of Nelvana to gain the benefits of a flexible, team-based approach that focuses on quality product and maximum efficiency.
- Nelvana acquired proprietary rights to the Babar brand, as well as production and distribution rights for high profile projects like The Berenstain Bears and Beyblade.

Despite these accomplishments and our aggressive action on our three-point plan, the Corus share price eroded during the course of fiscal 2002.

We were unable to meet the aggressive earnings target we set in January of 2002 due to a number of factors, both internal and external to Corus:

1 A global decline in media and entertainment stocks which reflected ongoing investor concerns over accounting practices, depressed advertising revenues and a concern over long-term sustainability of subscriber fee revenue from cable and satellite operators.

2 Margin pressure on Nelvana due to the global advertising recession and general economic malaise, the consolidation of program buyers in the U.S., and the failure of key customers in Germany, particularly RTV. These factors led us to take a write-down on Nelvana of $350 million.

3 Significant revenue difficulties in the Quebec radio market, which we believe to be a non-recurring problem.

Heather A. Shaw
EXECUTIVE CHAIR

John M. Cassaday
PRESIDENT & CHIEF EXECUTIVE OFFICER

As we look towards 2003, we believe we have positive momentum across our operations. We are well-positioned to leverage our brands into accelerated top and bottom line growth, particularly if the current ad market strength continues and the overall economy demonstrates a sustainable rebound.

We are delivering strong programming to our audiences in radio and television and they are rewarding us – YTV, CMT and W Network ratings are showing renewed strength and the Toronto radio group is tracking ahead of last year with strong prospects in the country's largest market. The rise in penetration of digital television in Canada bodes well for the success of our digital services.

We have a plan to build our country music franchise through CMT with a focus on entertainment programming. This fall, a special performance series with Shania Twain will be shared by CMT, our country format radio stations across Canada, and W Network, demonstrating the potential of combined program buying and cross-promotion.

We have created and launched Deep Sky, a new business marketing unit that will bring customers and incremental revenue to the Radio division in 2003 and we have consolidated radio management. We expect that a significant investment in research and marketing will drive radio ratings in many of our established stations.

We will see Nelvana in a cash flow neutral position this fiscal year. With emerging "hit" brands like Medabots and Beyblade complementing the stable of classic favourites like Babar and Franklin, we have implemented a clear strategy for Nelvana with a new focus on marketing, a reduced production slate, the most efficient production model in the business and our continued focus on identifying outstanding shows that can help build audience for our broadcast partners around the world.

We are confident that we are taking the right steps to adjust our strategy to current economic realities, while ensuring that we protect the long-term and strategic value of our business. We are a more streamlined and efficient organization than we were a year ago. Our commitment to building market share and shareholder value is firm.

You will see your company grow stronger in the coming months as our operations work together to become a media and entertainment powerhouse that is the choice of audiences, employees, customers and investors.

Our aim is clear, our resolve is firm and our strength is tested. We are ready.

John M. Cassaday
PRESIDENT & CHIEF EXECUTIVE OFFICER

Heather A. Shaw
EXECUTIVE CHAIR

overview of businesses

RADIO

Corus is Canada's leading radio operator in terms of revenues, audience reach and operating margins. The radio business is comprised of 50 radio stations (subject to approval by the CRTC of Corus' disposition of the two Oshawa radio stations announced on August 20, 2002) situated primarily in eight of the 10 largest Canadian markets by population and in the densely-populated area of Southern Ontario. Based on targeted demographics, more than half of Corus' stations ranked number one.

The radio group derives the majority of its revenues from local and national advertising sales. Revenues for fiscal 2002 and 2001 were $211 million and $192, respectively. On average, approximately 75% of the radio group's revenues were derived from local advertising.

Corus will continue to consolidate radio stations in major markets, growing revenues and margins through research-driven programming decisions, professional sales execution and highly efficient operations.

The near-term strategy for the radio business is focused on strengthening domestic market leadership by increasing ratings and market share in the major metropolitan markets in Canada, subject to CRTC limits on ownership, and continuing to have Canada's largest audience reach and the highest operating margins.

The Company will continue to look for opportunities to pair AM and FM radio stations, to the limits allowed by the CRTC for the given market, which will improve operating performance by expanding demographic coverage of the market, thereby providing local and national advertisers with "one stop shopping". Corus' clustering strategy also provides opportunities to share costs between radio stations, thereby improving operating margins.

TELEVISION

Corus' television group is comprised of specialty television networks, pay television services, three conventional television stations, and other media services.

Corus' collection of specialty television networks appeal particularly to kids, teens and women – much-coveted target groups among Canadian marketers. The group had the largest viewing audience, based on BBM National Meters 2001-02 broadcast year performance, and has the largest aggregate number of subscribers in Canada. Each of Corus' analog specialty television networks – YTV, Treehouse, W Network, CMT and Telelatino – is ranked among the top three analog television networks that compete within its genre, based on targeted demographics.

On September 7, 2001, Corus launched five digital specialty television networks: Documentary Channel, Discovery Kids, SCREAM, and Edge TV. Country Canada was also launched by Corus in partnership with CBC but Corus subsequently sold its 70% ownership stake in the service to the CBC. The CRTC approved this transaction on October 24, 2002.

Corus also holds interests in The Locomotion Channel (50%), TELETOON (40%), and The Food Network Canada (19.9%).

Revenues from the specialty television networks are derived from subscriber fees and advertising. In fiscal 2002, subscriber fees accounted for 48% and advertising accounted for 46% of the total revenues.

Corus is also the exclusive licensed provider of premium television services in western Canada through *Movie Central's* six distinct thematic channels. In fiscal 2002, *Movie Central* enjoyed significant subscriber gains, ending the year with approximately 609,000 subscribers. *Movie Central's* subscriber base increased by 4% over fiscal 2001. Revenues from Corus' pay television business have also experienced dramatic growth as a result of increased direct-to-home satellite and digital cable subscribers.

In fiscal 2002, Corus' television division also operated three popular conventional television stations in Kingston, Peterborough and Oshawa. These CBC-affiliated television stations improved operating efficiencies by consolidating with Corus' local market radio stations.

The television group also includes the operations of Max Trax (formerly DMX Music), a residential digital audio service, and Digital ADventure (DAD) which operates *TV Listings* channels.

Corus' television strategy will continue to focus on the high growth pay and specialty segments of the television business while providing the highest levels of customer service. Ongoing consolidation of program buying and operations will continue wherever efficiencies can be found to maximize the margins across all of Corus' television services.

Corus intends to provide growth, diversification and synergistic benefits to its television group by expanding its leadership in the Canadian specialty television and broadcasting market by activating new licenses that have already been granted by the CRTC and selectively acquiring licenses which become available, in whole or in part, from existing owners. Corus will also focus on generating higher audience ratings on existing specialty television networks and new revenue streams from its various businesses.

CONTENT

The Content division consists of the operations of Nelvana Limited, an integrated children's production and distribution company that develops, produces, markets and distributes quality branded media content and related products for children worldwide, and Kids Can Press, a Canadian publisher of children's books.

Nelvana is a global leader in animation production with program distribution in over 200 countries and to many of the world's leading networks. Nelvana is also a recognized leader in the field of digital animation. Its Toronto production facility houses state-of-the-art 2D and 3D animation technology and is rapidly moving the majority of its production to more efficient and cost-effective digital platforms.

In January 2002, Nelvana was granted selective production, distribution and merchandising rights to the popular *Berenstain Bears* brand and to the Japanese animé phenomenon, *Beyblade*.

At August 31, 2002, Nelvana's program library totaled over 2,100 half-hour equivalent episodes, comprising 54 animated television series, 14 specials, 12 animated feature length films and 13 live action series. The United States market accounted for 41% of production and distribution revenues in fiscal 2002, compared to 19% from the Canadian market and 40% from other countries.

Over the past five years, Nelvana has grown its proprietary production deliveries from 135 half-hour equivalent episodes in fiscal 1998 to 252 in fiscal 2002, a compounded annual growth rate of 16.9%. However, the growth was achieved with significant investment in new programs. The Company has committed itself to reducing cash flow requirements with the goal of achieving cash flow neutrality within the next year while continuing to grow its library. In order to achieve this cash management plan, Nelvana will reduce its production slate to less than 150 new episodes for fiscal 2003.

In publishing, Kids Can Press continued to grow its broad catalogue of titles, led by the strength of the *Franklin* brand with more than 50 titles and over 43 million books sold worldwide.

Corus' content strategy is to build and manage core brands, to acquire new brands, and to exploit those brands across established and new distribution channels and outlets. The Company will focus efforts on dramatically increasing merchandising and licensing revenue, increasing distribution internationally by obtaining or creating programming blocks, specialty channels or thematic programming in key territories, and by exploiting synergies with the television group, while continuing to find opportunities for increased efficiencies.

management's discussion and analysis

Management's Discussion and Analysis is a review of activities and results for the fiscal year ended August 31, 2002 as compared to the previous year, and a review of activities and results for the fiscal year ended August 31, 2001 as compared to the previous year. Comments relate to and should be read in conjunction with the audited consolidated financial statements.

FORWARD-LOOKING STATEMENTS

Certain statements in this report may constitute forward-looking statements. The results or events predicted in these statements may differ materially from actual results or events. These forward-looking statements can generally be identified by the use of statements that include phrases such as "believe", "expect", "anticipate", "intend", "plan", "likely", "will" or similar words or phrases. Similarly, statements that describe the Company's objectives, plans or goals are or may be forward-looking statements.

These forward-looking statements are based on Corus' current expectations and its projections about future events. However, whether actual results and developments will conform with the Company's expectations and projections is subject to a number of risks and uncertainties, including, among other things: the Company's ability to attract and retain advertising revenues; audience acceptance of its radio stations, specialty television networks and the television programs they produce; its ability to recoup production costs, the availability of tax credits and the existence of co-production treaties; its ability to compete in any of the industries in which it does business; the opportunities (or lack thereof) that may be presented to and pursued by Corus; conditions in the entertainment, information and communications industries and technological developments therein; changes in laws or regulations or the interpretation or application of those laws and regulations; the Company's ability to integrate and realize anticipated benefits from its acquisitions; and to effectively manage its growth. These are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of Corus' forward-looking statements. Other unknown and unpredictable factors could also harm its results. Consequently, there can be no assurance that the actual results or developments anticipated by Corus will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, the Company. Unless otherwise required by applicable securities laws, Corus disclaims any intention or obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with Generally Accepted Accounting Principles (GAAP), the Company presents certain supplemental earnings measures and financial information. These are income before depreciation, amortization, interest, other and income taxes (EBITDA) and pro forma information. These measures and financial information do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

EBITDA

This measure is provided to assist investors in determining the ability of the Company to generate cash from operations to cover financial charges before income and expense items from investing activities, income taxes and items not considered to be in the ordinary course of business. It is also widely used for valuation purposes. A reconciliation of EBITDA and net income is provided in the consolidated statements of income (loss) and retained earnings (deficit). EBITDA is calculated as net income (loss) before minority interest, equity earnings, income tax expense (recovery), goodwill and intangible impairment loss, asset write-downs, hedge transaction loss, restructuring charges, other income, gain on sale of investments, interest expense, amortization and depreciation. A listing of these items is disclosed in the consolidated statements of income (loss) and retained earnings (deficit). These items are excluded in the determination of EBITDA as they are non-cash in nature, pre-tax, financing charges, income or expense from investing activities or are not considered to be in the ordinary course of business. EBITDA should not be considered in isolation of or as a substitute for (1) net income or loss, as an indicator of the Company's operating performance, or (2) cash flows from operating, investing and financing activities, as a measure of the Company's liquidity.

PRO FORMA INFORMATION

Pro forma information (including pro forma revenues, pro forma EBITDA and pro forma EBITDA margins) is provided to assist investors in comparing results between periods after giving effect to significant acquisitions and divestitures. In particular, results from the same period in fiscal 2001 have been adjusted to reflect operating results of all businesses reporting in the current period as if the businesses had been owned for the same number of days in the prior year. Pro forma information is provided on the basis of the Company's reportable business segments (Radio, Television and Content) for revenues and EBITDA – the measure of profitability reviewed by the chief operating decision maker of these divisions, since there were acquisitions and/or dispositions in each of these divisions during fiscal 2001 or fiscal 2002.

PRO FORMA RESULTS RECONCILIATION

The following table reconciles pro forma revenues and EBITDA for the year ended August 31, 2001 to actual results as reported in the consolidated statement of income for the same periods and should be read in conjunction with the preceding comments on supplemental earnings measures:

YEAR ENDED AUGUST 31, 2001	AS REPORTED	ACQUISITIONS	DISPOSITIONS	PRO FORMA
REVENUES				
Radio	191,773	17,446	–	209,219
Television	228,693	37,644	(11,687)	254,650
Content				
Production and distribution	81,287	26,188	–	107,475
Branded consumer products	56,119	25,654	(23,624)	58,149
Eliminations	(1,047)	–	–	(1,047)
	556,825	106,932	(35,311)	628,446
EBITDA (1)				
Radio	48,063	(180)	–	47,883
Television	73,728	10,963	(3,801)	80,890
Content				
Production and distribution	8,509	3,927	–	12,436
Branded consumer products	3,616	4,388	(921)	7,083
Corporate	(9,461)	–	–	(9,461)
Eliminations	(539)	–	–	(539)
	123,916	19,098	(4,722)	138,292

(1) EBITDA means net income (loss) before minority interest, equity earnings, income tax expense (recovery), goodwill and intangible impairment loss, asset write-downs, hedge transaction loss, restructuring charges, other income, gain on sale of investments, interest expense, amortization and depreciation.

OVERVIEW

Corus commenced operations on September 1, 1999. On that date, pursuant to a statutory plan of arrangement, Corus was separated from Shaw Communications Inc. ("Shaw") as an independently operated, publicly traded company and assumed ownership of Shaw's radio broadcasting, specialty television, digital audio services and cable advertising services businesses, as well as certain investments held by Shaw.

Corus manages its business in three operating groups: Radio, Television and Content. Generally, Corus' financial results depend on a number of factors, including the strength of the Canadian national economy and the local economies of Corus' served markets, local and national market competition from other broadcasting stations and other advertising media, government regulation, market competition from other distributors of children's animated programming and Corus' ability to continue to provide popular programming.

(a) Radio

The Radio group is comprised of 50 radio stations, subject to CRTC approval of the divestiture of its two Oshawa radio stations. (2001: 49 stations), primarily situated in eight of the 10 largest Canadian markets by population, and in the densely populated area of Southern Ontario. Revenues are derived from advertising aired over these stations. Corus is Canada's leading radio operator in terms of revenues, audience reach and operating margins.

(b) Television

The Television group consists of the following: specialty television networks YTV, W Network (formerly WTN), Treehouse TV, an 80% interest in CMT (Country Music Television) and 50.5% in Telelatino; Corus Premium Pay Services under the names of *Movie Central* and *Encore Avenue*; three conventional television stations; Max Trax (formerly DMX Music), a digital audio service; and Digital ADventure, a cable advertising service. Revenues for specialty television networks are generated from affiliate subscriber fees and advertising. Revenues for pay television and digital audio services are generated from affiliate subscriber fees. Revenues for the conventional television stations and cable advertising services are derived from advertising sales.

(c) Content

The Content group consists of the production and distribution of television programs and the branded consumer products business (formerly merchandise licensing and publishing businesses) of Nelvana Limited which was acquired in fiscal 2001. Revenues are generated from licensing of television programs, merchandise licensing and publishing.

Corus is well diversified by revenue source with revenue streams for the year ended August 31, 2002 derived primarily from four areas: advertising (46%), subscriber fees (22%), license fees (15%) and publishing and merchandising (11%).

Consolidated operating, general and administrative expenses include amortization of program and film rights (cost of programming purchased from third parties), amortization of film investments (costs associated with internally produced programming), employee remuneration, regulatory license fees, cost of goods sold relating to publishing, marketing (research and advertising costs), selling, general administration and overhead costs. Cost of goods sold relating to publishing include the material cost of the product, printing, freight, customs and duties and royalties to authors and illustrators based upon sales. Approximately 29% and 46% of consolidated operating, general and administrative expenses in fiscal 2002 (2001 – 32% and 37%, respectively) were comprised of employee remuneration and programming costs, respectively.

results of operations

The following table presents summary financial information for Corus' operating business segments and a reconciliation of net income to EBITDA for each of the years ended August 31:

(CDN $MILLIONS EXCEPT FOR %'S)	2002	%[2]	2001[3]	%[2]	2000	%[2]	% INCREASE (DECREASE) 2002 OVER 2001	% INCREASE (DECREASE) 2001 OVER 2000
REVENUES								
Radio	211.4	32.3	191.8	34.4	86.2	37.6	10.2	122.5
Television	284.7	43.6	228.7	41.1	143.0	62.4	24.5	59.9
Content	159.9	24.6	137.4	24.7	–	–	16.4	–
Eliminations	(3.2)	(0.5)	(1.1)	(0.2)	–	–	–	–
	652.8	100.0	556.8	100.0	229.2	100.0	17.2	142.3
OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES								
Radio	158.5	75.0	143.7	74.9	59.5	69.0	10.3	141.5
Television	194.6	68.4	155.0	67.8	100.2	70.0	25.5	54.7
Content	180.9	113.1	125.3	91.2	–	–	44.4	–
Corporate	4.9	0.8	9.5	1.7	4.0	1.7	(48.5)	137.5
Eliminations	(2.6)	(0.4)	(0.6)	(0.1)	–	–	–	–
	536.3	82.2	432.9	77.7	163.7	71.4	23.9	164.4
EBITDA[1]								
Radio	52.9	25.0	48.1	25.1	26.7	31.0	10.0	80.0
Television	90.1	31.6	73.7	32.2	42.8	30.0	22.1	72.2
Content	(21.0)	(13.1)	12.1	8.8	–	–	(273.6)	–
Corporate	(4.9)	(0.8)	(9.5)	(1.7)	(4.0)	(1.7)	48.5	(137.5)
Eliminations	(0.6)	(0.1)	(0.5)	(0.1)	–	–	–	–
	116.5	17.8	123.9	22.3	65.5	28.6	(6.0)	89.2
Depreciation	25.9	4.0	20.0	3.6	9.0	3.9	29.5	122.2
Amortization	8.0	1.2	45.9	8.3	13.4	5.8	(82.6)	242.5
Interest on long-term debt	57.7	8.8	47.3	8.5	30.4	13.3	22.0	55.6
Gain on sale of investments	(18.2)		(103.1)		(197.7)			
Other income	(0.1)		(10.5)		(9.5)			
Restructuring charges	22.1		–		–			
Hedge transaction loss	17.6		–		–			
Asset write-downs	15.3		1.5		–			
Goodwill impairment loss	162.8		–		–			
Income (loss) before taxes	(174.6)		122.8		219.9			
Income tax expense (recovery)	(5.1)		(3.1)		65.8			
Income (loss) before equity earnings from investees and minority interest	(169.5)		125.9		154.1			
Equity earnings from investees	5.1		2.6		2.1			
Minority interest	(1.6)		(0.3)		(0.2)			
NET INCOME (LOSS)	(166.0)		128.2		156.0			

(1) *EBITDA means net income (loss) before minority interest, equity earnings, income tax expense (recovery), goodwill and intangible impairment loss, asset write-downs, hedge transaction loss, restructuring charges, other income, gain on sale of investments, interest expense, amortization and depreciation.*

(2) *Operating, general and administrative expenses and EBITDA for each business segment are expressed as a percentage of revenues for the segment. Other items are expressed as a percentage of total revenues.*

(3) *As discussed in note 2(b) to Corus' 2002 audited consolidated financial statements, the financial results for fiscal 2001 have been restated to reflect a change in the method of accounting for investments in film and programming.*

quarterly consolidated financial information

(unaudited)

(THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS)	REVENUES	EBITDA[1]	NET INCOME (LOSS)	EARNINGS (LOSS) PER SHARE[2] BASIC	DILUTED
2002					
4th Qtr	**$ 165,741**	**$ 2,874**	**$ (189,877)**	**$ (4.45)**	**$ (4.45)**
3rd Qtr	**149,402**	**38,396**	**463**	**0.01**	**0.01**
2nd Qtr	**162,923**	**29,534**	**19,470**	**0.46**	**0.45**
1st Qtr	**174,718**	**45,692**	**3,907**	**0.09**	**0.09**
2001					
4th Qtr	$ 166,581	$ 31,694	$ (1,901)	$ (0.04)	$ (0.04)
3rd Qtr	138,031	30,197	103,373	2.43	2.41
2nd Qtr	134,736	25,604	13,132	0.31	0.31
1st Qtr	117,477	36,421	13,563	0.35	0.35
2000					
4th Qtr	$ 81,042	$ 22,627	$ 14,991	$ 0.40	$ 0.40
3rd Qtr	55,411	15,967	63,139	1.80	1.77
2nd Qtr	41,369	10,110	67,828	2.23	2.19
1st Qtr	51,408	16,832	10,026	0.33	0.33

(1) EBITDA means net income (loss) before minority interest, equity earnings, income tax expense (recovery), goodwill and intangible impairment loss, asset write-downs, hedge transaction loss, restructuring charges, other income, gain on sale of investments, interest expense, amortization and depreciation.

(2) The sum of basic and diluted earnings (loss) per share for the four quarters differ from the basic and diluted earnings (loss) per share for the year, due to differences in the average number of shares outstanding.

fiscal highlights

• 2002 • 2001

operations

Revenue from operations increased by 17% to $653 million in 2002.

EBITDA decreased by 6% to $117 million in 2002 after absorbing a $40 million write-down in film investments.

EBITDA margins were 18% in 2002 compared to 22% in 2001.

Corus continues to be the most listened to radio company in Canada with a cumulative weekly audience of 7.8 million listeners, 22% ahead of its next closest competitor.

In April 2002, Corus relaunched and rebranded the Women's Television Network ("WTN") as "W Network", focused on making the network more contemporary and entertaining with an enhanced program schedule that provides a mix of new dramas, fresher movies and lifestyle programming. Recent Nielsen statistics indicate a 30% growth in W18-34 weekly viewers and a 20% growth in W18-49 weekly viewers for the period April 15/02 – June 30/02 compared to the prior year.

In January 2002, Corus' Nelvana was granted rights to *Beyblade*, the Japanese toy and anime phenomenon. The program launched on YTV at #1 among kids 2-11, on Cartoon Network U.K., as #1 with kids 10-15, and as the top program in the ABC Family boys' action block of programming in the U.S. The spinning top toy has sold out across Canada and is poised to sweep American retail sales.

Revenue from operations increased by 143% to $557 million in 2001.

EBITDA increased by 89% to $124 million in 2001.

EBITDA margins were 22% in 2001 compared to 29% in 2000.

The cumulative weekly audience for Corus radio stations increased from 6.5 million to 8.1 million listeners, an increase of 25%, therefore making Corus the largest operator in terms of audience tuning and revenues in Canada.

Pro forma EBITDA for Television increased 23% over fiscal 2000, reflecting strong organic growth.

Nelvana delivered 242 episodes in the 12 months ended August 31, 2001, a 22% increase over the 199 episodes delivered in the prior year.

acquisitions | divestitures

Effective November 16, 2001, Corus acquired shares that increased its total interest in Telelatino Network Inc. ("Telelatino") to 50.5% from 20% for cash consideration of $11 million. Telelatino operates TLN Television, a specialty ethnic channel that provides programming in Italian, Spanish and English.

Effective November 19, 2001, Corus acquired the Women's Television Network (WTN) for $205 million. The service was relaunched as "W Network" on April 15, 2002.

Effective December 18, 2001, Corus disposed of a 29.9% stake in the Comedy Network for $36 million.

Effective January 4, 2002, Corus acquired all of the outstanding shares of Tri-Co Broadcasting Limited which owns and operates three radio stations in Cornwall, Ontario for $4.3 million.

Effective March 1, 2002, Corus exchanged ownership interests with DMX Music, Inc. of the digital music subscription services to residential and commercial customers in Canada. The transaction resulted in Corus acquiring ownership of the existing Canadian residential subscription business and DMX Music, Inc. gaining ownership of the Canadian commercial business. Corus acquired assets with an assigned fair value of approximately $19 million and for which cash consideration of approximately $11 million was paid.

Effective April 8, 2002, Corus sold Klutz to Scholastic Inc. for approximately $68 million (U.S.$43 million) in cash plus a three-year earn-out based on revenue.

Effective May 17, 2002, Corus acquired a 50% interest in the Locomotion Channel, an action-oriented animation pay television service targeting young adults aged 18-35 available in over 27 countries and seven million homes throughout Latin America and Iberia (Spain and Portugal). The service will be operated in partnership with The Hearst Corporation.

Effective May 31, 2002, Corus completed the sale of Viewer's Choice to Shaw Communications Inc. for cash consideration of $33 million.

Effective November 14, 2000, Corus acquired 100% of Nelvana Limited ("Nelvana"), an international producer and distributor of children's programming and products for $561 million in cash and shares and the assumption of $94 million of debt. Nelvana operates as a new business segment called "Content".

Effective February 28, 2001, Corus completed the acquisition of six radio stations in Quebec from Metromedia CMR Broadcasting Inc. for $170 million.

Effective February 28, 2001, Corus disposed of the Quebec conventional television station CHAU-TV for approximately $9 million.

Effective May 30, 2001, Corus disposed of its 50% interest in The Family Channel Inc. including its direct 40% ownership interest in TELETOON Canada Inc. for $127 million.

financial

On March 7, 2002, Corus issued U.S.$375 million aggregate principal amount of 8 3/4% senior subordinated notes due 2012 at a price of 99.186% of their aggregate principal amount. The net proceeds of the offering were used to repay existing bank debt.

During the year, Corus disposed of two million non-voting shares of Astral Media Inc. for total consideration of $93.3 million. The proceeds were used to repay the securitized borrowing of $89.5 million in full.

Acquired 2,029,000 Class A Non-Voting and 145,600 Class B subordinate voting shares of Astral Media Inc. from Shaw for $110 million. Subsequently, Corus monetized 2,000,000 Class A Non-Voting shares with a financial institution for $89.5 million.

Increased the Company's credit facilities by $150 million.

Issued 5,047,532 Corus Class B Non-Voting shares to complete the Nelvana acquisition.

regulatory

The CRTC licensed 16 new English-language Category 1 digital Canadian specialty services, which were launched in September, 2001. Distributors using digital technology are required to distribute all Category 1 services appropriate for their market. The CRTC licensed more than 270 Category 2 services, which must negotiate with distributors for access. Corus, in conjunction with its partners, launched five new digital services and two Category 1 services: The Canadian Documentary Channel and Country Canada, which was subsequently transferred to the Canadian Broadcasting Corporation. Corus also launched three Category 2 services: Discovery Kids, Edge TV and SCREAM.

During the year, a landmark decision was announced by the CRTC removing a general prohibition against cable companies or their affiliates owning specialty and pay-television channels distributed on analog channels. The CRTC decision removes a growth constraint for Corus, as Corus was viewed by the CRTC as an affiliate of a cable company.

fiscal 2002 compared to fiscal 2001

Revenues for fiscal 2002 were $652.8 million, up 17% from $556.8 million last year. Through acquisition and organic growth, all divisions contributed to the strong growth in revenues. On a pro forma basis, revenues increased 4% from $628.4 million last year.

Operating, general and administrative expenses were $536.3 million, up 24% from $432.9 million last year. Expenses were also impacted by the Company's acquisitions during the year. Fiscal 2002 results include a write-down of film investments in the Content division of $40 million. On a pro forma basis, operating, general and administrative expenses increased 9% from $490.1 million last year. The increase is due to the film investments write-down, increased revenues and higher programming costs associated with specialty/pay television.

EBITDA was $116.5 million, after absorbing the $40 million write-down of film investments in the Company's Content division, compared to $123.9 million last year. The Radio and Television divisions achieved EBITDA growth of 10% and 22%, respectively. The Content division incurred an EBITDA loss for fiscal 2002. On a pro forma basis, EBITDA was down 16% from $138.3 million last year. EBITDA as a percentage of revenues was 18% in 2002 (24% excluding the write-down) and 22% in 2001.

RADIO

Radio revenues for fiscal 2002 were $211.4 million, up 10% from $191.8 million in fiscal 2001, reflecting an increase from 49 stations at the end of fiscal 2001 to 52 stations at the end of fiscal 2002. On a pro forma basis, revenues were up 1% for the year. Despite a soft advertising market during the year, the Western and Ontario stations delivered revenue growth over the prior year. In particular, revenue growth of 8% was experienced in the key markets of Toronto, Vancouver and Winnipeg. The Quebec market was negatively impacted by the temporary drop in revenues caused primarily by the reformatting of the two All-News radio stations as new audiences must be developed.

Operating, general and administrative expenses for fiscal 2002 were $158.5 million, up 10% from $143.7 million last year. The increase was from the acquisitions made in fiscal 2002 and full year inclusion in fiscal 2002 of the acquisitions made in fiscal 2001. On a pro forma basis, operating, general and administrative expenses were down 2% from $161.3 million last year, primarily as a result of cost saving initiatives made in the first quarter of 2002.

EBITDA was $52.9 million for fiscal 2002, up 10% from $48.1 million for fiscal 2001. EBITDA as a percentage of revenues was 25% in fiscal 2002, compared to 25% in fiscal 2001 and 23% in fiscal 2001 on a pro forma basis. Excluding the reformatted stations, EBITDA as a percentage of revenues was 30% for fiscal 2002.

The increased EBITDA margins for the fiscal year indicate Corus is well underway to achieving its hurdle rate of 30%. In particular, in the West, all clusters met or exceeded the 30% margin and in Ontario, the Toronto cluster delivered 33% margin for the year. In Quebec, the Company's investment in three reformatted stations continued to put pressure on its overall EBITDA margins for the divisions.

TELEVISION

Television revenues for fiscal 2002 were $284.7 million, up 24% from $228.7 million in fiscal 2001. There was $40.8 million (72.3%) of growth in revenues resulting from acquisitions made in fiscal 2002 (W Network and Telelatino). On a pro forma basis, revenues were up 12% from $254.7 million last year. Growth in subscriber fee revenues continued as a result of increased direct-to-home satellite and digital cable subscribers. In particular, the Company's premium television services *Movie Central* and *Encore Avenue* delivered revenue growth of 29% over the prior year. At the end of fiscal 2002, *Movie Central* had approximately 609,000 subscribers, a 4% increase from the end of fiscal 2001.

Operating, general and administrative expenses for fiscal 2002 were $194.6 million, up 26% from $155.0 million in fiscal 2001 primarily as a result of acquisitions made in fiscal 2002, the costs of launching five new digital networks in fiscal 2002 and increased programming costs as the Company continued to invest in the promotion of the relaunch of *Movie Central* and *Encore Avenue*.

EBITDA was $90.1 million for fiscal 2002, up 22% from $73.7 million for fiscal 2001. EBITDA as a percentage of revenues was 32% in fiscal 2002, compared to 32% in fiscal 2001. Excluding the impact of the new digital networks, EBITDA as a percentage of revenues was 34% in fiscal 2002.

fiscal 2002 compared to fiscal 2001
(continued)

CONTENT

Content revenues were $159.9 million in fiscal 2002, up 16% from $137.4 million in fiscal 2001. Fiscal 2001 only includes the operating results of Nelvana Limited ("Nelvana") since November 14, 2000. On a pro forma basis, revenues decreased 3% from the prior year.

Revenues for the Production and Distribution business were down 8% from the prior year on a pro forma basis. In fiscal 2002, Corus produced 252 episodes compared to 242 episodes in fiscal 2001, increasing its program library to over 2,100 half-hour equivalent episodes. Despite an increase in production, the decrease in revenues reflect the upheaval in the German market and the overall downward pressure on license fees as current revenue per episode decreased from $295,000/episode in fiscal 2001 to $206,000/episode in fiscal 2002. Unfortunately, the erosion of the production and distribution market has negatively impacted the value of the Company's investment in Nelvana. As a result, Corus wrote down its investment by $200 million with $40 million for film investments, reflected in operating, general and administrative expenses, and $160 million for goodwill and other intangibles.

Revenues for the Branded Consumer Products business were up 8% over the prior year and up 4% over the prior year on a pro forma basis. In April 2002, Corus disposed of the U.S. publishing business Klutz. The increase in revenues was primarily attributable to strong merchandising revenues from *Rescue Heroes*, *Little Bear*, *Franklin*, *Medabots*, *Babar* and *Beyblade* products. Corus' Canadian publishing business, Kids Can Press, continues to be impacted by the consolidation of the Canadian book retailing environment as a result of the merger of Chapters and Indigo.

Operating, general and administrative expenses for fiscal 2002 were $180.9 million, after absorbing the $40 million write-down of film investments mentioned above. Excluding the write-down, operating, general and administrative expenses were up 13% over the prior year and down 3% over the prior year on a pro forma basis. The decrease, on a pro forma basis, is primarily due to lower amortization expense associated with lower production and distribution revenues for the year.

EBITDA for fiscal 2002 was a loss of $21.0 million, after absorbing the write-down of film investments, compared to EBITDA of $12.1 million last year and $19.5 million on a pro forma basis last year. EBITDA as a percentage of revenues was negative for fiscal 2002 (12% excluding the write-down of film investments) compared to 9% last year and 12% on a pro forma basis last year.

CORPORATE OVERHEAD

Corporate overhead in fiscal 2002 was $4.9 million down from $9.5 million in 2001. Corporate overhead is the incremental cost that is not allocated to the operating divisions. The decrease is due to approximately $2.5 million in incremental one-time costs for recruitment and professional fees incurred in fiscal 2001.

DEPRECIATION

Depreciation expense was $25.9 million, up from $20.0 million in 2001. The increase was due to an increase in the capital asset base from acquisitions made in fiscal 2001 and 2002.

AMORTIZATION

Amortization was $8.0 million, down from $45.9 million in 2001. The decrease was due to the Company not amortizing broadcast licenses and goodwill as a result of adopting the new accounting standards in fiscal 2002.

INTEREST EXPENSE

Interest expense was $57.7 million, up from $47.3 million in 2001. The Company's effective interest rate for fiscal 2002 was 7.7% compared to 8.7% in the prior year reflecting lower interest rates in the current year.

GAIN ON SALE OF INVESTMENTS

For the year ended August 31, 2002, the pre-tax gain on sale of investments of $18.2 million resulted primarily from the disposal of Corus' interest in The Comedy Network, Astral Media Inc. non-voting shares, Klutz and Viewer's Choice. In the prior year, the pre-tax gain of $103.1 million resulted primarily from the disposal of Corus' interest in The Family Channel Inc. and its television station, CHAU-TV.

OTHER INCOME

Other income was $0.1 million, down from $10.5 million last year primarily due to higher interest income from short-term investments and dividend income earned in fiscal 2001.

RESTRUCTURING CHARGES

In light of the current economic climate, Corus has taken proactive steps to reduce debt and improve operating margins by streamlining operations through workforce reductions and implementing cost control initiatives. Restructuring charges of $22.1 million were recorded during the year, representing workforce reductions of approximately 410 positions, lease terminations and settlement of contracts relating to activities which will no longer be continued. Through these initiatives, the Company estimates that it will capture annual cost savings of approximately $10 to $15 million.

HEDGE TRANSACTION LOSS

The hedge transaction loss of $17.6 million reflects the non-cash expense associated with unwinding U.S. $147 million of cross-currency interest rate swaps during the third quarter fiscal 2002.

ASSET WRITE-DOWNS

Asset write-downs of $15.3 million relate primarily to the discontinuation of the operations of Balmur Corus Music Inc., a music and television production business, and the write-down of the Company's investments in Liberty Digital Inc. and LMIV to net realizable value. The prior year includes an asset write-down of $1.5 million for its investment in COOLeh.com.

GOODWILL AND INTANGIBLE IMPAIRMENT LOSS

During the year, as a result of the adoption of the new accounting pronouncements and annual impairment testing, Corus recorded a non-cash charge for goodwill and intangible impairment of $162.8 million primarily in the Content division associated with the Production and Distribution business. Such a change is non-operational in nature.

INCOME TAXES

The income tax recovery in fiscal 2002 was $5.1 million, up from $3.1 million last year. Fiscal 2002 reflects a benefit on the tax loss realized from the sale of Klutz; however, there was not a corresponding accounting loss as the investment was written down in a prior period. Fiscal 2001 included a $42.3 million future tax recovery which reflected a decrease in tax rates applicable to certain future tax assets and liabilities.

EQUITY EARNINGS FROM INVESTEES

Equity earnings from investees was $5.1 million, up from $2.6 million last year. The increase relates to the inclusion of an additional 20% interest in TELETOON acquired as part of the Nelvana acquisition in fiscal 2001, which the Company began recognizing on the equity basis in August 2001.

NET INCOME (LOSS)

Net income (loss) for fiscal 2002 was a loss of $166.0 million, compared to income of $128.2 million last year. Earnings per share were a loss of $3.90 basic ($3.90 diluted) compared with earnings per share of $3.09 basic ($3.06 diluted) last year.

fiscal 2001 compared to fiscal 2000

Revenues for fiscal 2001 were $556.8 million, up 143% from $229.2 million in fiscal 2000. Through acquisition and organic growth, all divisions contributed to the strong growth in revenues. On a pro forma basis, revenues increased 9% from $511.2 million last year.

Operating, general and administrative expenses were also affected by the Company's acquisitions during the year. Operating, general and administrative expenses for fiscal 2001 were $432.9, up 164% from $163.7 million in fiscal 2000. On a pro forma basis, operating, general and administrative expenses increased 12% from $387.1 million in fiscal 2000. The increase was a direct result of increased revenues and was mainly due to higher programming costs associated with specialty/pay television and increased productions at Nelvana.

EBITDA was $123.9 million, up 89% from $65.5 million in fiscal 2000. The Radio and Television divisions achieved EBITDA growth of 80% and 72%, respectively. Fiscal 2001 EBITDA also included $12.1 million from the acquisition of Nelvana in November 2000. On a pro forma basis, EBITDA was consistent with the prior year. EBITDA as a percentage of revenues was 22% in 2001 and 29% in 2000.

RADIO

Radio revenues for fiscal 2001 were $191.8 million, up 122% from $86.2 million in fiscal 2000, reflecting an increase from 43 stations at the end of fiscal 2000 to 49 stations at the end of fiscal 2001. In fiscal 2001 acquisitions accounted for all of the growth which was offset by a decline in organic revenues of 4%. Revenue growth of 7% was experienced in the key markets of Toronto, Edmonton and Calgary on a same station basis. Revenues were adversely affected by the temporary drop in revenues caused by abandoning existing formats in favor of new formats for which audiences must be developed. Specifically, CKLG, a soft adult contemporary format in Vancouver, was relaunched as NW(2), a 24-hour news wheel; *Talk 640* in Toronto was reformatted as a "guy talk" radio station branded as *Mojo*; and Barrie's leading radio station, CHAY-FM, was reformatted to the youthful *Energy Radio Network* as a hit radio station. As well, two all news radio stations were launched in Montreal. Revenues were also adversely affected by new competitors in Vancouver, Barrie, London, Hamilton and Kingston.

Operating, general and administrative expenses for fiscal 2001 were $143.7 million, up 142% from $59.5 million in fiscal 2000. $79.5 million (94%) of the increase was from the acquisitions made in fiscal 2001 and the full year inclusion in fiscal 2001 of the acquisitions made in fiscal 2000.

EBITDA was $48.1 million for fiscal 2001, up 80% from $26.7 million for fiscal 2000. EBITDA as a percentage of revenues was 25% in fiscal 2001, compared to 31% in fiscal 2000, reflecting the impact of increased competition and the investment in numerous format changes. Excluding the reformatted stations, EBITDA as a percentage of revenues was 29% for fiscal 2001.

TELEVISION

Television revenues for fiscal 2001 were $228.7 million, up 60% from $143.0 million in fiscal 2000. $66.1 million (77%) of the growth in revenues was from the acquisitions made in fiscal 2001 and the full year inclusion in fiscal 2001 of the acquisitions made in fiscal 2000. Growth in subscriber fee revenues continued as a result of increased direct-to-home satellite and digital cable subscribers. In addition, the reformatting of *Superchannel* and *MovieMax!* to the four thematic channels of *Movie Central* and two thematic channels of *Encore Avenue* fueled further subscriber revenue growth. At the end of fiscal 2001, *Movie Central* had approximately 586,000 subscribers, a 47% increase from the end of fiscal 2000.

Operating, general and administrative expenses for fiscal 2001 were $155.0 million, up 55% from $100.2 million in fiscal 2000 as a result of increased variable costs associated with increased revenues and increased programming costs associated with the launch of *Movie Central* and *Encore Avenue*.

EBITDA was $73.7 million for fiscal 2001, up 72% from $42.8 million for fiscal 2000. EBITDA as a percentage of revenues was 32% in fiscal 2001, compared to 30% in fiscal 2000.

CONTENT

Content includes the operating results of Nelvana since November 14, 2000. Corus did not operate a Content business prior to the acquisition of Nelvana. Content revenues were $137.4 million in 2001, an increase of 13% on a pro forma basis. This growth, on a pro forma basis, reflects a 31% increase in Production and Distribution revenues, and a 5% decrease in the Branded Consumer Products business (formerly the Merchandise and Publishing business).

fiscal 2001 compared to fiscal 2000 (continued)

The significant increase in Production and Distribution revenues reflects: (i) an increase of 54% in current revenue to $56.5 million; (ii) a 5% decrease in library revenues to $21.1 million; and (iii) a 6% increase in music royalties to $3.1 million. Current production revenue growth is a direct result of the ramp-up in proprietary production deliveries which increased 22% in the twelve months ended August 31, 2001 to 242 episodes compared to 199 episodes in the previous year. For the same period, current revenue per episode also increased from $230,000/episode last year to $295,000/episode in 2001. The decrease in library revenues is due to the fact that Nelvana completed a large library bulk sale in the prior year. Large library bulk deals do not necessarily repeat on an annual basis.

The decrease in Merchandise revenue is due to a weak retail environment. In fiscal 2001, a master toy license agreement was secured with Hasbro Inc. for the successful Japanese animated show *Medabots* which is expected to generate significant royalties over the next 3 to 5 years.

The Publishing business has been significantly affected by the weakness of the retail market, especially the specialty book retail segment in the U.S., and the merger of Chapters and Indigo in Canada. Despite the turmoil in the Canadian publishing market, Kids Can Press continues to show revenue growth of 4% over a year ago. In the U.S., Klutz was impacted by the financial difficulties and bankruptcies being experienced by several of its customers resulting in a decrease in revenues of 8% compared to the prior year. Given the softness of the specialty retail segment, management is actively pursuing the expanding of its channels of distribution.

Operating, general and administrative expenses increased from $101.6 million in fiscal 2000, on a pro forma basis, to $125.3 million in fiscal 2001. The 23% increase reflects the higher costs associated with increased volume of production, higher marketing expenses to support the growth of the merchandise business and increased bad debt provisions of over $1.5 million to reflect financial difficulties experienced by Klutz customers.

EBITDA decreased from $19.1 million in 2000, on a pro forma basis, to $12.1 million in 2001 and EBITDA as a percentage of revenues was 9% in 2001. The decrease in EBITDA reflects the softness in the merchandising and publishing businesses.

CORPORATE OVERHEAD

Corporate overhead in fiscal 2001 was $9.5 million up from $4.0 million in fiscal 2000. Corporate overhead is the incremental cost that is not allocated to the operating divisions. The increase is due to higher infrastructure costs necessary to support the acquisitions made in 2000 and 2001 (mainly in the area of information technology) and includes approximately $2.5 million in incremental one-time costs for recruitment and professional fees.

DEPRECIATION

Depreciation expense in fiscal 2001 was $20.0 million, up from $9.0 million in fiscal 2000. The increase was a result of the increase in the capital asset base from acquisitions made in fiscal 2000 and 2001.

AMORTIZATION

Amortization expense in fiscal 2001 was $45.9 million, up from $13.4 million in fiscal 2000. The majority of the increase was due to amortization of goodwill and broadcast licenses acquired during fiscal 2000 and 2001 which was $42.4 million for fiscal 2001, up from $11.4 million in fiscal 2000.

INTEREST EXPENSE

Interest expense in fiscal 2001 was $47.3 million, up from $30.4 in fiscal 2000 which reflected an increase in long-term debt incurred to fund Corus' acquisitions in fiscal 2001 and to refinance debt of acquired companies. The Company's effective interest rate for the period was 8.7% compared to 10.2% in fiscal 2000.

GAIN ON SALE OF INVESTMENTS

The gain on sale of investments in fiscal 2001 was $103.1 million down from $197.7 million in fiscal 2000. The gain in fiscal 2001 resulted from the disposal of Corus' interest in The Family Channel Inc. and CHAU-TV. The gain in fiscal 2000 of $197.7 million resulted from the disposal of Corus' interests in Headline Sports Television, Liberty Digital Inc. and CTV Inc.

fiscal 2001 compared to fiscal 2000 (continued)

OTHER INCOME

Other income in fiscal 2001 was $10.5 million, up from $9.5 million in fiscal 2000 due to higher interest income from short-term investments in fiscal 2000.

INCOME TAXES

A future income tax recovery for fiscal 2001 of $42.3 million resulting from a re-measurement of future income tax assets and liabilities due to reduced income tax rates enacted from federal and provincial legislation. Income taxes (excluding the future tax recovery) as a percentage of earnings before taxes and amortization of broadcast licenses and goodwill were 25% in 2001 compared to 30% last year. The decrease in the tax rate is due to a lower effective tax rate for Nelvana and a lower effective tax rate on capital gains relating to sale of investments in fiscal 2001.

EQUITY EARNINGS FROM INVESTEES

Equity earnings from investees for fiscal 2001 were $2.6 million up from $2.1 million in fiscal 2000, primarily due to improved earnings from the Company's 20% interest in TELETOON.

NET INCOME

Net income for fiscal 2001 was $128.2 million, compared to $156.0 million in fiscal 2000. Earnings per share were $3.09 basic ($3.06 diluted) compared with earnings per share of $4.67 basic ($4.61 diluted) in fiscal 2000.

risks and uncertainties

IMPACT OF REGULATION ON CORUS' RESULTS OF OPERATIONS

Radio and Television

Corus' Radio and Television business activities are regulated by the CRTC under the *Broadcasting Act* and, accordingly, Corus' results of operations may be adversely affected by changes in regulations and decisions by the CRTC. These regulations relate to, among other things, licenses to operate radio and television stations and the rates Corus may charge for its specialty television services if distributed as part of the basic service. Corus' radio stations must also meet technical operating requirements under the *Radio Communication Act* and regulations promulgated under the *Broadcasting Act*. Changes in the regulation of Corus' business activities, including decisions by the CRTC affecting Corus' operations (such as the granting or renewal of licenses, decisions as to the subscriber fees Corus may charge its customers, or the granting of additional distribution, broadcasting or programming licenses to competitors in Corus' markets) or changes in interpretations of existing regulations by courts or the CRTC, could materially and adversely affect Corus' business and results of operations.

In addition, in order to maintain eligibility under the *Broadcasting Act* and the *Radio Communication Act*, there are limitations on the ownership by non-Canadians of Corus Class A Voting Shares. Under certain circumstances, Corus' Board of Directors may refuse to issue or register the transfer of Corus Class A Voting Shares to any person that is a non-Canadian or may sell the Corus Class A Voting Shares of a non-Canadian as if it were the owner of such Corus Class A Voting Shares.

Corus' radio, conventional television, specialty television, pay television, and pay audio undertakings rely upon licenses under the *Copyright Act* (Canada) in order to make use of the music component of the programming distributed by these undertakings. Under these licenses, Corus is required to pay royalties established by the Copyright Board pursuant to the requirements of the *Copyright Act* to collecting societies which represent the copyright owners in such music component. These royalties are paid by these undertakings on a monthly basis in the normal course of their business.

The levels of the royalties payable by Corus are subject to change upon application by the collecting societies and approval by the Copyright Board. The Government of Canada may, from time to time, make amendments to the *Copyright Act* to implement Canada's international treaty obligations and for other obligations and for other purposes. Any such amendments could result in Corus' broadcasting undertakings being required to pay additional royalties for these licenses.

For radio, two reproduction rights collectives have filed new tariffs against commercial radio stations: Société du droit de reproduction des auteurs, compositeurs et éditeurs au Canada (SODRAC), a collective representing reproduction rights holders of largely French and foreign language music; and the Canadian Musical Reproduction

Rights Agency (CMRRA), which represents major English language music publishers, the owners of reproduction rights in much of the English language music that stations play.

The two tariffs seek compensation from commercial radio stations for all reproductions of music made by such stations. The Canadian Association of Broadcasters (CAB) represented Canadian radio stations at a hearing before the Copyright Board in April 2002. The CAB argued that the tariff amount for the reproduction of music by Canadian radio stations should be nominal. A decision from the Copyright Board, establishing the level of the tariff, is expected in the fall/winter of 2002.

The Government of Canada has launched a consultation process that will lead to broad reform of the *Copyright Act*. The CAB participated in the first round of consultations by submitting strong positions to protect broadcasters' interests.

The CAB was not successful in reaching an agreement with the Society of Composers, Authors and Music Publishers of Canada (SOCAN) or the Neighbouring Rights Collective society (NRCC) to extend the existing tariff rate for the public performance of music on radio stations. A hearing to consider the appropriate tariff rate is expected in late 2003 or early 2004.

Recent CAB negotiations with SOCAN failed to resolve music use rates for specialty and pay services for the years 2001 and 2002. A hearing is scheduled to commence in April 2003 to consider the appropriate rate and in the interim, the 2000 rates will be payable.

Content

Corus licenses a significant portion of its programming to Canadian conventional television stations, specialty and premium television networks, which are required by the CRTC to devote a certain portion of their programming schedules to Canadian productions. In addition to these scheduling requirements, the CRTC often requires Canadian television services to devote a certain amount of their programming to, and to exhibit a certain number of hours of, certified Canadian programming. There can be no assurance that such policies will not be eliminated or scaled back, thereby reducing the advantages that they currently provide to Corus as a supplier of such programs. Also, there can be no assurance that the Company's programming will continue to qualify as certified Canadian programming. If Corus' programming fails to so qualify, Canadian broadcasters would not be able to use the programs to meet their Canadian programming obligations and, as a result, license fees paid to Corus by Canadian broadcasters would not reflect the current premium paid for certified Canadian programs and Corus would not qualify for certain Canadian tax credits and industry incentives. Currently, Canadian Heritage, the Canadian ministry that oversees the tax credits, is conducting a review of the definition of Canadian content, as it applies to film and television production.

COMPETITION

Corus encounters aggressive competition in all areas of its business. Corus' failure to compete in these areas could materially and adversely affect Corus' results of operations.

The television production industry, specialty and pay television channel broadcasting and radio broadcasting have always involved a substantial degree of risk. There can be no assurance of the economic success of television programs or specialty television channels as revenue derived depends on audience acceptance of other competing programs released into, or channels existing in, the market place at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors. All of which could change rapidly and many of which are beyond the Company's control. The lack of audience acceptance for Corus' television programs, specialty and pay television channels would have an adverse impact on its businesses, results of operations, prospects and financial condition.

Television

The financial success of Corus' specialty television business depends on obtaining revenue from advertising as well as from subscription fees. Numerous broadcast and specialty television networks compete with Corus for advertising revenue, and a failure by Corus to obtain its necessary share of such revenue could materially and adversely affect Corus' results of operations. In addition, competition among specialty television services in Canada is highly dependent upon the offering of prices, marketing and advertising support and other incentives to cable operators and other distributors for carriage so as to favorably position and package the services to subscribers. As well, the CRTC has licensed a number of specialty services for digital distribution which increases competition. Any failure by Corus to compete effectively in the area of specialty television services could materially and adversely affect Corus' results of operations.

Radio

The financial success of each of Corus' radio stations is dependent principally upon its share of the overall advertising revenue within its geographic market, its promotional and other expenses incurred to obtain the revenue and the economic strength of its geographic market. Corus' radio advertising revenues are, in turn, highly dependent upon audience share. Other stations may change programming formats to compete directly with Corus' stations for listeners and advertisers or launch aggressive promotional campaigns in support of already existing competitive formats. If a competitor, particularly one with substantial financial resources, were to attempt to compete in either of these fashions, ratings at Corus' affected station could be negatively impacted, resulting in lower net revenues.

Radio broadcasting is also subject to competition from electronic and print media. Potential advertisers can substitute advertising through broadcast television, cable television systems (which can offer concurrent exposure on a number of cable networks to enlarge the potential audience), daily, weekly, and free-distribution newspapers, other print media, direct mail, and on-line computer services for radio advertising. Competing media commonly target the customers of their competitors, and advertisers regularly shift dollars from radio to these competing media and vice versa. Accordingly, there can be no assurance that any of Corus' radio stations will be able to maintain or increase their current audience share and advertising revenue share.

Content

The production and distribution of children's television, books and other media content is very competitive. There are numerous suppliers of media content, including vertically integrated major motion picture studios, television networks, independent television production companies and children's book publishers around the world. Many of these competitors are significantly larger than Corus and have substantially greater resources, including easier access to capital, than Corus does. Corus competes with other television and motion picture production companies for ideas and storylines created by third parties as well as for actors, directors and other personnel required for a production.

Further, vertical integration of the television broadcast industry and the creation and expansion of new networks, which create a substantial portion of their own programming, have decreased the number of available time slots for programs produced by third party production companies. There can be no assurances that Corus will be able to compete successfully in the future or that Corus will continue to produce or acquire rights to additional successful programming or enter into agreements for the financing, production, distribution or licensing of programming on terms favorable to us. There continues to be intense competition for the most attractive time slots offered by those services. There can be no assurances that Corus will be able to increase or maintain its penetration of broadcast schedules.

RISKS ASSOCIATED WITH PRODUCTION OF FILM AND TELEVISION PROGRAMS

Each production is an individual artistic work and its commercial success is determined primarily by audience acceptance, which cannot be accurately predicted. Audience acceptance is a factor not only of the response to artistic components of a film or television program, but also to the type and extent of promotion and marketing activities, the quality and acceptance of other competing programs, general economic conditions and other factors, all of which can change rapidly and many of which are beyond Corus' control. Therefore, economic success of any production is not assured.

Production of film and television programs require a significant amount of capital. Factors such as labour disputes, technology changes or other disruptions affecting aspects of production may affect Nelvana or its co-production partners and cause cost overruns and delay or hamper completion of a production.

Financial risks exist in productions relating to tax credits and co-production treaties. The aggregate amount of government tax credits a project may receive can constitute a material portion of a production budget and typically can be as much as 20% of total budgeted costs. There is no assurance that government tax credits and industry funding assistance programs will continue to be available at current levels or that Nelvana's production projects will continue to qualify for them. As well, the majority of Nelvana's productions are co-productions involving international treaties which allow Nelvana to access foreign financing and reduce production risk as well as qualify for Canadian government tax credits. If an existing treaty between Canada and the government of one of the current co-production partners were to be abandoned, one or more co-productions currently underway may also need to be abandoned. Losing the ability to rely on co-productions would have a significant adverse effect on Nelvana's production capabilities and production financing.

risks and uncertainties ***(continued)***

Results of operations for the production and distribution business for any period are dependent on the number, timing and commercial success of television programs and feature films delivered or made available to various media, none of which can be predicted with certainty. Consequently, current revenue from production and distribution may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition.

Library revenue from production and distribution can vary substantially from year to year, both by geographic territory and by year of production. The timing of Nelvana's ability to sell library product in certain territories will depend on the market outlook in the particular territory and the availability of product by territory which depends on the extent and term of any prior sale in that territory.

INTELLECTUAL PROPERTY RIGHTS

Corus' trade-marks, copyrights and other proprietary rights are important to its competitive position. In particular, the Content group must be able to protect its trade-marks, copyrights and other proprietary rights in order to competitively produce, distribute and license its television programs and published materials, and market its merchandise. Accordingly, Corus devotes its resources to the establishment and protection of its trade-marks, copyrights and other proprietary rights on a worldwide basis. However, from time to time, various third parties contest or infringe upon the Company's intellectual property rights. The Company reviews these matters to determine what, if any, actions may be required or should be taken, including legal action or negotiated settlement. There can be no assurance that the Company's actions to establish and protect its trade-marks, copyrights and other proprietary rights will be adequate to prevent imitation or unauthorized reproduction of the Company's products by others or prevent third parties from seeking to block sales, licensing or reproduction of these products as a violation of the Company's trade-marks, copyrights and proprietary rights.

Moreover, there can be no assurance that others will not assert rights in, or ownership of, the Company's trade-marks, copyrights and other proprietary rights, or that the Company will be able to successfully resolve these conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States or Canada.

TECHNOLOGICAL DEVELOPMENTS

New or alternative media technologies and business models, such as digital radio services, direct-to-home satellite, wireless and wired cable television and Internet radio and video programming, have recently begun to compete for programming, audiences and advertising revenues. These technologies and business models may increase audience fragmentation, reduce the Company's ratings or have an adverse effect on advertising revenues from local and national audiences. These or other technologies and business models may have a material adverse effect on Corus' business, results of operations or financial conditions.

GOODWILL AND OTHER INTANGIBLE ASSETS

In fiscal 2002, Corus adopted new rules for measuring the impairment of goodwill and indefinite life intangible assets (see Impact of New Accounting Pronouncements). Under the new standards, the Company is required to perform impairment tests of goodwill and indefinite life intangible assets at least annually but more frequently if indications of impairment exist. Any impairment losses after adoption of the new standards are recorded in net income for that period. The fair value of the Company's intangible assets, including goodwill, is exposed to future adverse changes if the Company experiences declines in operating results or experiences significant negative industry or economic trends or if future performance is below historical trends. Accordingly, impairment losses could result in a significant charge to the Company's reported earnings in the future.

FOREIGN EXCHANGE RISK

A significant portion of revenues and expenses for the Content business is in currencies other than the Canadian dollar and, therefore, is subject to fluctuations in exchange rates. Approximately 20% of Corus' total revenues were in foreign currencies, the majority of which were U.S. dollars. The foreign exchange risk is mitigated as the net cash flow from operations is a natural hedge against interest on U.S. denominated debt.

risks and uncertainties **(continued)**

INTEREST RATE RISK

Interest rate risk arises from fluctuations in interest rates on drawings under Corus' senior revolving credit facility. As at August 31, 2002, 90% of the Company's total long-term debt is fixed. Corus does not engage in a speculative trading program.

CONTROL OF CORUS BY THE SHAW FAMILY

JR Shaw and members of his family and the corporations owned and/or controlled by JR Shaw and members of his family (the "JR Shaw Group") currently own approximately 83% of outstanding Corus Class A Voting Shares. The Corus Class A Voting Shares are the only shares entitled to vote in all circumstances. As long as the JR Shaw Group owns a majority of the Corus Class A Voting Shares, the JR Shaw Group will continue to be able to elect Corus' entire Board of Directors and to remove any director, with or without cause, without calling a special meeting. In addition, the concentration of ownership and voting power may have the effect of delaying or preventing a change of control of Corus that could otherwise be beneficial to holders of Corus Non-Voting Shares. As a result, the JR Shaw Group will control matters affecting Corus, including the allocation of business opportunities that may be suitable for Corus and the composition of Corus' Board of Directors and, through it, any determination with respect to Corus' business direction and policies, including the appointment and removal of officers.

The JR Shaw Group may exercise their control over Corus according to interests that are different from the interests of other investors. They could pursue transactions that in their judgment enhance the value of their equity investment despite involving risks to other investors. In addition to their interest in Corus, the JR Shaw Group controls Shaw Communications Inc., a cable operator and its wholly-owned subsidiary, Star Choice Communciations Inc., a direct-to-home satellite operator.

All of the Corus Class A Voting Shares held by the JR Shaw Group are subject to a voting trust agreement entered into by such persons. The voting rights with respect to such Corus Class A Voting Shares are exercised by the representative of a committee of five trustees.

ACTIONS BY CORUS' BOARD OF DIRECTORS MAY DELAY OR PREVENT AN ACQUISITION OF CORUS, WHICH COULD DECREASE THE VALUE OF CLASS B NON-VOTING SHARES.

Corus' Board of Directors has the authority to issue preferred shares and to determine the designation, rights, conditions, restrictions and limitations including voting and dividend rights, of preferred shares without any further vote or action by shareholders, which could be used to dilute the share ownership of a potential hostile acquirer. The rights of the holders of Corus Class B Non-Voting Shares will be subject to, and may be adversely affected by, the rights of the holders of any preferred shares that may be issued.

liquidity and capital resources

CASH FLOW

Cash flow derived from operations was $229.8 million in fiscal 2002 compared to $159.2 million in fiscal 2001, an increase of 44%. The increase is due to cash flow generated from the various acquisitions in fiscal 2001 and 2002. Cash flow from operations per share for the year was $5.39 basic ($5.39 diluted) compared with $3.83 basic ($3.81 diluted) last year.

Cash used in investing activities in fiscal 2002 was $179.1 million (2001 – $814.5 million). Cash usage in fiscal 2002 consisted primarily of capital asset additions, payments of program and film rights, additions to film investments and deferred charges, business acquisitions and investments as described below:

- Capital expenditures amounted to $28.0 million in fiscal 2002 compared to $37.0 million in fiscal 2001. Fiscal 2001 capital expenditures reflected significant acquisitions (Nelvana, Metromedia) made during the year.
- Payment of program and film rights amounted to $96.7 million in fiscal 2002 compared to $63.9 million in 2001. Annual expenditures on program rights will vary depending upon availability of materials, cost, length of license agreements, and program success. The increase in fiscal 2002 reflects increased activity associated with the acquisition of WTN, five new digital specialty channels launched during the year, and continued investment in the relaunch of *Movie Central* and *Encore Avenue*.
- Additions to film investments amounted to $132.5 million in fiscal 2002 compared to $95.6 million in 2001 reflecting increased production at Nelvana. In fiscal 2001, the additions to film investments are reflected from the acquisition date of November 2000.
- Cash usage for material business acquisitions and investments in fiscal 2002 amounted to $118 million (2001 – $746 million). The principal business acquisitions and investments consisted of WTN, Telelatino, Locomotion, and increased interests in The Comedy Network and DMX Music. In 2001, the principal acquisitions consisted of Nelvana ($332 million) and Metromedia ($129 million) and the principal investments consisted of $110 million for Class A and B shares of Astral Media Inc. and a $150 million advance for the acquisition of WTN.
- Cash usage was partially offset by net proceeds received from business divestitures and sale of investments of $229.8 million (2001 – $138.0 million), which included interests in The Comedy Network, Astral Media non-voting shares, Klutz and Viewer's Choice. Fiscal 2001 included the sale of The Family Channel Inc. and CHAU-TV.

Cash used in financing activities in fiscal 2002 was $54.1 million, reflecting management's efforts to reduce debt during the year.

LONG-TERM DEBT

Bank Loans

At August 31, 2002, the Company had available a $25.0 million revolving operating loan facility and senior revolving credit facilities of $427.5 million, of which approximately $366.0 million were undrawn. Interest rates on the bank loans fluctuate with the Canadian bankers' acceptances and LIBOR and averaged 6.7% for fiscal 2002 and 6.8% in fiscal 2001.

Senior Subordinated Notes

On March 7, 2002, Corus issued U.S. $375 million aggregate principal amount of 8 3/4% senior subordinated notes ("Notes") due 2012 at a price of 99.186% of their aggregate principal amount.

The Company has entered into cross-currency interest rate agreements to fix the liability for interest and principal payments on the Notes. The agreements have resulted in an effective interest rate of 9.33% on the Canadian dollar equivalent of the U.S. debt. The exchange rate applicable to the principal portion of the debt has been fixed at Cdn. $1.6107 or approximately Cdn. $604 million.

The net proceeds from this offering were used to repay existing indebtedness including the permanent repayment in full of the Company's reducing term loans of Cdn. $294 million due August 31, 2007. Consequently, the Company unwound U.S. $147 million of cross-currency interest rate swaps relating to the reducing term loan that had fixed the interest rate at 11.4% and liability for interest and principal payments at Cdn. $212 million.

At August 31, 2002, Corus had total net debt (long-term debt, including current portion, plus securitized borrowing and bank overdraft less cash and cash equivalents) outstanding of $628.5 million, down from $716.8 million in fiscal 2001 reflecting a ratio of net debt to EBITDA of 5.4 to 1. Excluding the write-down in film investments, the ratio of net debt to EBITDA was 4.0 to 1. Corus had a net debt to EBITDA ratio of 5.8 to 1 at August 31, 2001. The decrease in debt is mainly due to a restructuring initiative implemented during the first quarter of fiscal 2002 and with various asset dispositions throughout the year. Management considers the current level of long-term debt to be reasonable.

Corus believes that its current credit facilities and earnings from operations are sufficient to fund operations and commitments including CRTC benefits for the foreseeable future.

impact of new accounting pronouncements

BUSINESS COMBINATIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

Effective September 1, 2001, Corus adopted retroactively the Canadian Institute of Chartered Accountants' ("CICA") standards on Business Combinations (CICA Section 1581), and Goodwill and Other Intangible Assets (CICA Section 3062). CICA Section 1581 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. CICA Section 3062 changes the accounting for goodwill from an amortization method to an impairment-only approach; thus, amortization of goodwill, including goodwill recorded in past business combinations, has ceased upon adoption of these standards. Goodwill and other intangibles will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that they might be impaired.

Corus evaluated its intangible assets acquired on prior purchase business combinations to ensure the allocation of amounts to broadcast licenses, having indefinite lives, and to goodwill as at September 1, 2001 was appropriate under the new recommendations. In the first quarter, Corus tested the amounts allocated to broadcast licenses and concluded that no provisions for impairment were required. In the second quarter, management tested the amounts allocated to goodwill and, as a result, Corus recorded a non-cash charge for goodwill impairment in the Content division of approximately $150 million of which a portion related to the recently disposed Klutz business. Such charge is non-operational in nature and was reflected as an adjustment to retained earnings as at September 1, 2001.

Adjusted earnings per share before amortization of broadcast licenses and goodwill for the year ended August 31, 2001 was $3.98 basic ($3.95 diluted).

ACCOUNTING BY PRODUCERS OR DISTRIBUTORS OF FILMS

Effective September 1, 2001, Corus retroactively adopted the Statement of Position 00-2 ("SOP 00-2"), "Accounting by Producers or Distributors of Films", which provides guidance on U.S. GAAP to all producers or distributors that own or hold rights to distribute or exploit films.

The adoption of SOP 00-2 resulted in a retroactive adjustment to the allocation of the purchase price of the Nelvana Limited assets, which were acquired on November 14, 2000, of $8,252,000, representing a reduction of the film investments acquired. Consequently, future tax liability has been decreased by $3,301,000 and goodwill has been increased by $4,951,000. The consolidated balance sheet at August 31, 2001 has been restated to reflect these allocations. Consequently, net income for the year ended August 31, 2001 has decreased by $4,608,000 as a result of increased amortization of film investments and goodwill. The consolidated statement of income for the year ended August 31, 2001 has been restated to reflect these adjustments.

EARNINGS PER SHARE

Effective September 1, 2001 Corus adopted the new recommendations of the CICA Handbook Section 3500, "Earnings Per Share". Accordingly, earnings per share are calculated based on net income attributable to common shareholders. Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury stock method. The dilutive effect of convertible securities is determined using the "if-converted" method. The new recommendations have been applied retroactively to restate all diluted earnings per share amounts.

recent accounting pronouncements

FOREIGN CURRENCY TRANSLATION

The Canadian Institute of Chartered Accountants has recently approved amendments to CICA Handbook Section 1650, "Foreign Currency Translation", which eliminates the unique Canadian treatment of deferring and amortizing unrealized translation gains and losses on long-term monetary items. These amendments will be effective for the Company's fiscal year commencing on September 1, 2002. Corus does not expect that this amendment will have a material impact on the consolidated financial statements as the foreign exchange is fully hedged.

STOCK-BASED COMPENSATION

In 2001, the CICA issued Handbook Section 3870, effective for fiscal years beginning on or after January 1, 2002. This pronouncement establishes a new standard for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided to a company by both employees and non-employees.

The standard requires that, for all stock-based payments to non-employees and to employees where the stock-based awards call for settlement in cash or other assets, including stock appreciation rights, a compensation expense be recognized in the consolidated statement of income, determined using a fair value based method of accounting. The standard is effective for the Company's fiscal year beginning September 1, 2002 and is applied to stock-based awards granted on or after that date.

Had the Company adopted the new standard on September 1, 2001, there would have been no impact on the Company's fiscal 2002 net income or earnings per share as the Company had already included the compensation costs associated with such payments and awards in its consolidated statement of income.

Additionally, for stock options granted to its employees, the new standard permits the Company to continue its existing policy of recognizing no compensation expense if the Company chooses the disclosure-only method of adoption. Consideration paid by employees on the exercise of stock options is recorded as an increase in the Company's cash and share capital accounts.

Had the Company adopted the new standard on September 1, 2001, and had the Company chosen to recognize an expense related to the granting of stock options to its employees, the impact on net income and basic and diluted earnings per share of the Company would have been a decrease of $7.3 million and $0.17/share, respectively. These effects may not be representative of future amounts since the estimated fair value of stock options on the date of grant is measured over the vesting period and additional options may be granted in future years.

The Company plans to comply with the requirements of Section 3870 effective September 1, 2002 and will provide pro forma disclosure of net income and earnings per share in the notes to the consolidated financial statements as if the fair-value based method had been used.

HEDGING RELATIONSHIPS

In November 2001, the CICA issued Accounting Guideline-13, Hedging Relationships ("AcG-13"). AcG-13 establishes new criteria for hedge accounting and will apply to all hedging relationships in effect for the Company's fiscal year commencing on September 1, 2003 under Canadian GAAP. To qualify for hedge accounting, consistent with U.S. GAAP, the hedging relationship must be appropriately documented at the inception of the hedge and there must be reasonable assurance, both at the inception and throughout the term of the hedge, that the hedging relationship will be effective. Effectiveness requires a high correlation of changes in fair values or cash flows between the hedged item and the hedge. The Company currently documents all hedging relationships on an ongoing basis. The Company plans to comply with the requirements of AcG-13 such that all of its current hedges will continue to qualify for hedge accounting.

critical accounting policies

Management believes that the application of the following accounting policy, which is important to the Company's financial position and results of operations, requires significant judgments and estimates on the part of management. For a summary of all of the Company's significant accounting policies, including the accounting policy discussed below, see note 2(a) to the consolidated financial statements.

FILM INVESTMENTS

Corus capitalizes costs of production and distribution of film and television programs to film investments. These costs are amortized to direct operating expenses in accordance with SOP 00-2. These costs are stated at the lower of unamortized film or television program costs or fair value. These costs for an individual film or television program are amortized in the proportion that current period actual revenues bear to management's estimates of the total revenues expected to be received from such film or television program over a period not to exceed ten years from the date of delivery. As a result, if revenue estimates change with respect to a film or television program, Corus may be required to write down all or a portion of the unamortized costs of such film or television program. No assurance can be given that unfavourable changes to revenue estimates will not occur, which may result in significant write-downs affecting the Company's results of operations and financial position.

management's responsibility for financial reporting

The accompanying consolidated financial statements of Corus Entertainment Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Corus Entertainment Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board, and the majority of its members are outside unrelated directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

John M. Cassaday
PRESIDENT & CHIEF EXECUTIVE OFFICER

Thomas C. Peddie, CA
SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER

auditors' report

TO THE SHAREHOLDERS OF CORUS ENTERTAINMENT INC.

We have audited the consolidated balance sheets of **Corus Entertainment Inc.** as at August 31, 2002 and 2001 and the consolidated statements of income (loss), retained earnings (deficit) and cash flows for each of the years in the three-year period ended August 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended August 31, 2002 in accordance with Canadian generally accepted accounting principles.

As discussed in note 2[b] to the consolidated financial statements, in 2002 the Company changed its method of accounting for film investments, earnings per share and goodwill and other intangible assets.

Ernst & Young LLP

Ernst & Young LLP
CHARTERED ACCOUNTANTS

Toronto, Canada,
October 17, 2002.

consolidated balance sheets

AS AT AUGUST 31	$ 2002	$ 2001
[thousands of Canadian dollars]		*[restated – note 2[b]]*
ASSETS [note 15]		
Current		
Cash and cash equivalents	**20,467**	—
Accounts receivable [notes 6 and 28]	**166,650**	175,009
Prepaid expenses and other	**9,850**	13,995
Inventories [note 7]	**4,230**	24,731
Program and film rights	**50,332**	48,753
Total current assets	**251,529**	262,488
Tax credits receivable	**30,332**	30,995
Investments and other assets [notes 4 and 8]	**84,755**	319,754
Capital assets [note 9]	**100,841**	104,944
Program and film rights	**15,645**	14,329
Film investments [note 10]	**140,601**	146,583
Deferred charges [note 11]	**37,486**	36,947
Broadcast licenses and other intangibles [note 12]	**482,594**	421,139
Goodwill [note 12]	**781,373**	932,632
	1,925,156	2,269,811
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank overdraft	—	6,536
Accounts payable and accrued liabilities [notes 13 and 28]	**178,277**	140,302
Income taxes payable	**5,748**	25,736
Future tax liability [note 18]	**2,248**	10,687
Securitized borrowing [note 14]	—	89,500
Current portion of long-term debt [note 15]	**2,391**	6,382
Total current liabilities	**188,664**	279,143
Long-term debt [note 15]	**646,614**	614,419
Deferred credits [note 16]	**76,631**	56,244
Future tax liability [note 18]	**150,177**	150,942
Other long term liabilities	**6,610**	—
Minority interest	**5,445**	1,456
Total liabilities	**1,074,141**	1,102,204
Shareholders' equity		
Share capital [note 17]	**881,415**	882,516
Retained earnings (deficit)	**(31,886)**	284,151
Cumulative translation adjustment	**1,486**	940
Total shareholders' equity	**851,015**	1,167,607
	1,925,156	2,269,811

Commitments [notes 15, 17 and 27]

See accompanying notes

On behalf of the Board:

John M. Cassaday — DIRECTOR

Heather A. Shaw — DIRECTOR

consolidated statements of income (loss) and retained earnings (deficit)

YEARS ENDED AUGUST 31	$ 2002	$ 2001	$ 2000
[thousands of Canadian dollars except per share amounts]		*[restated – note 2[b]]*	
Revenues [notes 26 and 28]	**652,784**	556,825	229,230
Operating, general and administrative expenses [notes 27 and 28]	**536,288**	432,909	163,694
Operating income before the following	**116,496**	123,916	65,536
Depreciation [note 9]	**25,858**	19,960	8,995
Amortization [notes 11 and 12]	**8,006**	45,958	13,383
Interest on long-term debt [note 15]	**57,731**	47,328	30,445
Gain on sale of investments [note 4]	**(18,172)**	(103,125)	(197,679)
Other income	**(68)**	(10,546)	(9,454)
Restructuring charges [note 20]	**22,089**	—	—
Hedge transaction loss [note 15[b]]	**17,636**	—	—
Asset write-downs [note 21]	**15,240**	1,530	—
Goodwill and intangible impairment loss [note 12]	**162,772**	—	—
Income (loss) before income taxes	**(174,596)**	122,811	219,846
Income tax expense (recovery) [note 18]	**(5,146)**	(3,093)	65,770
Income (loss) before equity earnings from investees and minority interest	**(169,450)**	125,904	154,076
Equity earnings from investees	**5,063**	2,585	2,108
Minority interest	**(1,650)**	(322)	(200)
Net income (loss) for the year	**(166,037)**	128,167	155,984
Retained earnings, beginning of year [note 2[b]]	**284,151**	155,984	—
Adjustment for change in accounting policy [note 2[b][iii]]	**(150,000)**	—	—
Retained earnings (deficit), end of year	**(31,886)**	284,151	155,984
Earnings (loss) per share			
Basic	**$ (3.90)**	$ 3.09	$ 4.67
Diluted – restated [note 2[b][iii]]	**$ (3.90)**	$ 3.06	$ 4.61
Weighted average number of shares outstanding [in thousands]			
Basic	**42,621**	41,539	33,379
Diluted – restated [note 2[b]]	**42,621**	41,819	33,870

See accompanying notes

consolidated statements of cash flows

YEARS ENDED AUGUST 31	$ 2002	$ 2001	$ 2000
[thousands of Canadian dollars except per share amounts]		*[restated – note 2[b]]*	
OPERATING ACTIVITIES			
Net income (loss) for the year	**(166,037)**	128,167	155,984
Add (deduct) non-cash items			
Depreciation	**25,858**	19,960	8,995
Amortization of broadcast licenses and goodwill [note 12]	**—**	42,429	11,431
Amortization of program and film rights and film investments	**222,564**	122,803	21,141
Other amortization	**8,006**	3,529	1,952
Future income taxes	**(34,949)**	(54,341)	54,171
Gain on sale of investments	**(18,172)**	(103,125)	(197,679)
Equity earnings from investees	**(5,063)**	(2,585)	(2,108)
Hedge transaction loss	**17,636**	—	—
Asset write-downs	**15,240**	1,530	—
Goodwill and intangible impairment loss	**162,772**	—	—
Minority interest	**1,650**	322	200
Other	**298**	467	217
Cash flow derived from operations	**229,803**	159,156	54,304
Net change in non-cash working capital balances related to operations [note 24]	**21,843**	(13,828)	19,747
Other	**2,020**	4,876	—
Cash provided by operating activities	**253,666**	150,204	74,051
INVESTING ACTIVITIES			
Additions to capital assets [note 24 [iii]]	**(27,927)**	(37,045)	(9,975)
Net proceeds from sale of investments	**134,827**	2,273	654,094
Net proceeds from business divestitures [note 4]	**95,067**	135,684	—
Business acquisitions, net of cash acquired [note 3]	**(77,720)**	(462,696)	(239,361)
Additions of investments	**(40,747)**	(283,382)	(63,654)
Payment of program and film rights	**(96,734)**	(63,937)	(32,241)
Additions to film investments	**(132,512)**	(95,628)	—
Additions to deferred charges	**(26,278)**	(13,022)	(8,907)
Other	**(7,065)**	3,288	697
Cash provided by (used in) investing activities	**(179,089)**	(814,465)	300,653
FINANCING ACTIVITIES			
Increase (decrease) in bank overdraft	**(6,536)**	6,536	—
Increase (decrease) in revolving loans	**(247,551)**	308,829	—
Decrease in reducing term loans	**(310,097)**	(3,000)	(2,617)
Increase in senior subordinated notes [note 15[b]]	**604,000**	—	—
Increase (decrease) in securitized borrowing [note 14]	**(89,500)**	89,500	—
Decrease in other long-term debt	**(3,325)**	(110,752)	—
Issuance of shares	**944**	800	—
Other	**(2,045)**	—	—
Cash provided by (used in) financing activities	**(54,110)**	291,913	(2,617)
Net increase (decrease) in cash and cash equivalents during the year	**20,467**	(372,348)	372,087
Cash and cash equivalents, beginning of year	**—**	372,348	261
Cash and cash equivalents, end of year	**20,467**	—	372,348
Cash flow from operations per share [note 2[a]]			
Basic	**$ 5.39**	$ 3.83	$ 1.63
Diluted – restated [note 2[b]]	**$ 5.39**	$ 3.81	$ 1.60

Supplemental cash flow disclosures [note 24]

See accompanying notes

notes to consolidated financial statements

August 31, 2002, 2001 and 2000

1 basis of presentation

Corus Entertainment Inc. ["Corus" or the "Company"] is a diversified Canadian communications and entertainment company. The Company is incorporated under the Canada Business Corporations Act and its shares are listed on the Toronto and New York Stock Exchanges.

2 [a] significant accounting policies

The consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"]. The effects of differences between the application of Canadian and U.S. GAAP on the consolidated financial statements of the Company are described in note 25.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Corus and all of its subsidiaries, all of which are wholly-owned except for Country Music Television Ltd. [80% interest] and Telelatino Network Inc. [50.5% interest]. Intercompany transactions and balances have been eliminated on consolidation. The results of operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

REVENUE RECOGNITION

Radio, specialty television and other media advertising revenues are recognized in the period in which the advertising is aired under broadcast contracts.

Affiliate subscriber fee revenues are recognized to the extent that the service has been made available under distribution contracts.

Revenue from distribution and the licensing of proprietary exploitation rights for network television, syndicated television, pay cable television feature films and home video is recognized when all of the following conditions are met: [i] persuasive evidence of a sale or licensing arrangement with a customer exists; [ii] the film is complete and is available for immediate and unconditional delivery; [iii] the license period of the arrangement has begun; [iv] the arrangement fee is fixed or determinable; and [v] collection of the arrangement fee is reasonably assured.

Revenue from merchandise licensing contracts, publishing and other royalties, which may provide for non-refundable advances, is recognized when the license period has commenced and collection is reasonably assured.

Revenue from the sale of books is recognized at the time of shipment, net of an estimated provision for returns. Revenue from the sale of subsidiary book rights, when determinable, is recorded on an accrual basis. When amounts are not determinable, amounts are recorded on receipt of funds. Grants for specific projects are recognized as revenue when awarded.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and short-term deposits with maturities of less than three months when purchased.

INVENTORIES

Inventories consist of books and are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis. Cost includes the cost of materials, labour and applicable overhead.

INVESTMENTS

Investments in entities over which the Company exercises significant influence are accounted for using the equity method. Investments in joint ventures and partnerships which the Company jointly controls are accounted for using the proportionate consolidation method of accounting. Other investments are recorded at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

Acquisitions subject to the Canadian Radio-television and Telecommunications Commission ["CRTC"] approval are recorded at cost until approval is received and then accounted for according to the nature of the investment made.

CAPITAL ASSETS

Capital assets are recorded at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

ASSET	ESTIMATED USEFUL LIFE
Broadcasting head-end equipment	10 years
Production equipment	5 years
Leasehold improvements	lease term
Buildings	20 – 40 years
Computer equipment	3 years
Furniture and fixtures	7 years
Other	4 – 10 years

PROGRAM AND FILM RIGHTS

Program and film rights represent contract rights acquired from third parties to broadcast television programs and feature films. The assets and liabilities related to these rights are recorded when the cost of the rights is known or reasonably determinable, the program material is accepted by the Company in accordance with the license agreement and the material is available to the Company for airing. These costs are

amortized over the contracted exhibition period as the programs or feature films are aired. Program and film rights are carried at the lower of cost less accumulated amortization and net recoverable amount.

Amortization of program and film rights is included in operating, general and administrative expenses and has been disclosed separately in the consolidated statements of cash flows.

FILM INVESTMENTS

Film investments represent the costs of projects in development, projects in process and the unamortized costs of proprietary films and television programs which have been produced by the Company or for which the Company has acquired distribution rights. Such costs include development and production expenditures, attributable studio and other costs which are expected to benefit future periods.

As more fully described in note 2[b], the Company has retroactively changed its policy in respect of accounting for film investments with the adoption of Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ["SOP 00-2"].

The individual-film-forecast-computation method is used to determine amortization. The capitalized costs and the estimated total costs of participations and residuals, net of anticipated federal and provincial program contributions, production tax credits and co-producers' shares of production costs, are charged to amortization expense on a series or program basis in the ratio that current period revenue bears to management's estimate of total gross revenue ["ultimate revenue"] to be realized from the series or program. Ultimate revenue is projected for periods not exceeding ten years from the date of delivery or acquisition. For episodic television series, the adoption of SOP 00-2 requires that ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. Estimates of gross revenue can change significantly due to the level of market acceptance of film and television products. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted. Such adjustments could have a material effect on the results of operations in future periods.

Film and television program costs are stated at the lower of unamortized cost or estimated net realizable value as determined on a series or program basis. Revenue and cost forecasts for each production are evaluated quarterly in connection with a comprehensive review of the Company's inventory of audio-visual products. Estimated losses, if any, are then provided for.

The Company reviews the status of projects in development quarterly. If, in the opinion of management, any such projects will not progress toward production, the accumulated costs are charged to operating expenses. Projects are written off at the earlier of the date determined not to be recoverable or when projects under development are abandoned, and three years from the date of the initial investment.

Amortization of film investments is included in operating, general and administrative expenses.

DEFERRED CHARGES

Financing costs and credit facility arrangements are amortized to income on a straight-line basis over the term of the debt facility.

Start-up costs for the preparation of new applications to the CRTC are deferred prior to approval by the CRTC. The costs associated with unsuccessful applications are expensed. Start-up costs for licenses of successful applications which are awarded by the CRTC are capitalized from the date they are awarded to the date revenue is generated for the service. Start-up costs are amortized over a period which reflects their expected future benefit, not exceeding the term of the licenses.

Advertising and promotion costs incurred for reformatting of radio, specialty and pay television stations are deferred and amortized on a straight-line basis over a period which reflects their expected future benefit, not exceeding three years. Costs assessed as having no future benefit are written off.

BROADCAST LICENSES, OTHER INTANGIBLE ASSETS AND GOODWILL

The cost of acquiring media broadcasting, production/distribution and publishing businesses is allocated to the fair value of related net identifiable tangible and intangible assets acquired. Net identifiable intangible assets acquired consist primarily of broadcast licenses. The excess of the cost of acquiring these businesses over the fair value of related net identifiable tangible and intangible assets acquired is allocated to goodwill. Prior to September 1, 2001, amounts allocated to broadcast licenses and goodwill were amortized on a straight-line basis over twenty to forty years.

Effective September 1, 2001, the Company adopted the non-amortization impairment approach in accounting for goodwill and other indefinite life intangible assets [note 2[b]]. The Company reviews the valuation and amortization period of goodwill whenever events or changes in circumstances warrant such a review.

GOVERNMENT FINANCING AND ASSISTANCE

The Company has access to several government programs that are designed to assist film and television production in Canada. Funding from certain programs provides a supplement to a series' Canadian license fees and is recorded as revenue when cash has been received. Government assistance with respect to federal and provincial production tax credits is recorded as a reduction of film investments when eligible expenditures are made and there is reasonable assurance of realization. Assistance in connection with equity investments is recorded as a reduction in film investments.

Government grants for specific publishing projects are recorded as revenue when awarded.

DEFERRED CREDITS

Deferred credits include: [i] a provision for contributions to Canadian broadcasting initiatives that must be made by a purchaser of specialty television, pay television, and radio undertakings in accordance with CRTC policies ["CRTC benefits"] associated with acquiring radio and television businesses that will be drawn down when the Company makes eligible payments towards meeting the conditions of license; [ii] foreign exchange gains on translating long-term debt; and [iii] unearned revenue from the distribution and licensing of rights for feature films and television programs.

INCOME TAXES

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse.

FOREIGN CURRENCY TRANSLATION

The assets and liabilities of the Company's self-sustaining operations having a functional currency in U.S. dollars are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

For integrated foreign operations monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in income.

Long-term debt denominated in U.S. dollars is translated into Canadian dollars at the year-end rate of exchange. Exchange gains or losses on translating long-term debt are deferred and, except for hedged debt, are amortized on a straight-line basis over the remaining term of the debt.

Other exchange gains and losses are included in net income for the year.

FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage risks from fluctuations in exchange and interest rates. These instruments include interest rate and cross-currency exchange agreements. All such instruments are only used for risk management purposes. The Company accounts for these financial instruments as hedges and, as a result, the carrying values of the financial instruments are not adjusted to reflect their current market value. The net receipts or payments arising from financial instruments relating to the management of interest rate risks are recognized in interest expense over the term of the instrument. Foreign exchange gains or losses arising on cross-currency agreements used to hedge U.S. dollar denominated debt are deferred until maturity of the agreement at which time they are offset by the foreign currency hedge.

STOCK-BASED COMPENSATION

No compensation expense is recognized for stock options granted under the Company's Stock Option Plan. Consideration paid by employees and senior officers on the exercise of stock options is credited to share capital. Consideration paid by the Company under the Company's Employee Share Purchase Plan is included in operating, general and administrative expenses.

EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury stock method.

Basic and diluted cash flow from operations per share have been calculated using the cash flow derived from operations before the net change in non-cash working capital balances related to operations.

02 [b] accounting changes

[THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE AMOUNTS]	2001
OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES	
As previously reported	427,688
Adjustment [i]	5,221
As restated	432,909
AMORTIZATION	
As previously reported	45,761
Adjustment [i]	197
As restated	45,958
INCOME TAX RECOVERY	
As previously reported	(2,283)
Adjustment [i]	(810)
As restated	(3,093)
NET INCOME	
As previously reported	132,775
As restated [i]	128,167
RETAINED EARNINGS	
As previously reported	288,759
Adjustment [i]	(4,608)
As restated	284,151
BASIC EARNINGS PER SHARE	
As previously reported	$ 3.20
As restated [i] [ii]	$ 3.09
DILUTED EARNINGS PER SHARE	
As previously reported	$ 3.14
As restated [i] [ii]	$ 3.06

None of the accounting changes had any effect on amounts previously reported for fiscal 2000, except for the adoption of a new standard related to earnings per share [ii], which had an immaterial impact on diluted earnings per share.

[i] SOP 00-2

The Company retroactively adopted SOP 00-2, which provides guidance on U.S. GAAP to all producers or distributors that own or hold rights to distribute or exploit films.

The impact of the adoption of SOP 00-2 includes the following:

[a] For episodic television series, the adoption of SOP 00-2 requires that ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. The impact of SOP 00-2 was to amortize the cost of film investments over a shorter number of years than was previously realized.

[b] Projects in development include costs of acquiring film rights to books, stage plays or original screenplays and costs to adapt such projects. Such costs are capitalized and, upon commencement of production, are transferred to production costs. Projects are written off at the earlier of the date determined not to be recoverable or when projects under development are abandoned, and three years from the date of the initial investment. Prior to the adoption of SOP 00-2, development costs were charged to operations when in the opinion of management, such projects would not progress towards production which might give rise to a deferral of these costs in excess of three years.

Adoption of SOP 00-2 resulted in a retroactive adjustment to the allocation of the purchase price of the Nelvana Limited assets, which were acquired on November 14, 2000, of $8,252,000, representing a reduction of the film investments acquired. Consequently, future tax liability has been decreased by $3,301,000 and goodwill has been increased by $4,951,000. The consolidated balance sheet at August 31, 2001 has been restated to reflect these allocations.

[ii] Earnings per share

Effective September 1, 2001 the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants' ["CICA"] Handbook Section 3500, "Earnings per share". Accordingly, earnings per share are calculated based on net income attributable to common shareholders. Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of warrants and stock options is determined using the treasury stock method. The dilutive effect of convertible securities is determined using the "if-converted" method. The new recommendations have been applied retroactively to restate all diluted earnings per share amounts in these consolidated financial statements.

[iii] Business combinations, goodwill and other intangible assets

Effective September 1, 2001, the Company adopted retroactively the CICA's standards on Business Combinations [CICA Section 1581], and Goodwill and Other Intangible Assets [CICA Section 3062]. CICA Section 1581 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. CICA Section 3062 changes the accounting for goodwill from an amortization method to an impairment-only approach; thus, amortization of goodwill, including goodwill recorded in past business combinations, has ceased upon adoption of these standards. Goodwill and other intangibles will be tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired.

The Company evaluated its intangible assets acquired on prior purchase business combinations to ensure the allocation of amounts to broadcast licenses, having indefinite lives, and to goodwill as at September 1, 2001 was appropriate under the new recommendations. In the first quarter, management tested the amounts allocated to broadcast licenses and concluded that no provisions for impairment were required. In the second quarter, management tested the amounts allocated to goodwill and, as a result, the Company recorded a non-cash charge for goodwill impairment in the Content division of approximately $150,000,000 of which a portion related to the recently disposed Klutz business. Such charge is non-operational in nature and is reflected as an adjustment to retained earnings as at September 1, 2001. See also note 12.

Adjusted earnings per share before amortization of broadcast licenses and goodwill for the year ended August 31, 2001 were $3.98 basic [$3.95 diluted].

[iv] Goodwill and broadcast license reclassification

During fiscal 2002, as part of the Company's analysis in the application of the new non-amortization impairment approach for broadcast licenses and goodwill adopted September 1, 2001, a retroactive reclassification was made from broadcast licenses to goodwill resulting in a net reclassification of $18,995 as at August 31, 2001. This reclassification was made to ensure a consistent approach was taken in the allocation of fair value to net identifiable intangible assets acquired. This reclassification has no impact on future income taxes and no impact on previously reported net income.

03 business combinations

In fiscal 2002 and 2001, the Company completed a number of acquisitions which are summarized below:

Transactions completed in fiscal 2002:

[THOUSANDS OF CANADIAN DOLLARS EXCEPT FOR PERCENTAGES]	TELELATINO [A]	WTN [B]	OTHER [C][D]	TOTAL
Effective date acquired	Nov. 2001	Nov. 2001		
Percentage acquired	50.5 %	100 %	100 %	
Cash, including transaction costs, net of cash acquired				
Fiscal 2002	7,480	55,009	15,231	77,720
Prior years	738	150,079	—	150,817
	8,218	205,088	15,231	228,537
Non-cash consideration	—	—	8,000	8,000
Integration and transaction costs, net of taxes	30	35	100	165
Total consideration after integration and transaction costs	8,248	205,123	23,331	236,702
ASSIGNED VALUE OF ASSETS AND LIABILITIES ACQUIRED				
Capital assets	1,301	3,834	129	5,264
Program and film rights	412	4,990	—	5,402
Broadcast licenses	7,424	68,238	2,196	77,858
Goodwill	6,803	167,959	21,834	196,596
Non-cash working capital	(439)	1,721	83	1,365
Long-term debt	(146)	—	—	(146)
Deferred credits	(1,106)	(20,500)	(242)	(21,848)
Minority interest	(2,339)	—	—	(2,339)
Future tax liability	(2,277)	(21,119)	(669)	(24,065)
	9,633	205,123	23,331	238,087
Equity earnings of investee recorded in prior years	(1,385)	—	—	(1,385)
	8,248	205,123	23,331	236,702

[a] Telelatino Network Inc. ["Telelatino"]

Effective November 16, 2001, Corus acquired shares that increased its total interest in Telelatino to 50.5% from 20% for cash consideration of $11,056,250. Telelatino operates TLN Television, a specialty ethnic channel that provides programming in Italian, Spanish and English. The results of operations are included in the Company's consolidated financial statements from the date of acquisition.

[b] Women's Television Network ["WTN"]

Effective November 19, 2001, Corus acquired all of the outstanding shares of Lifestyle Television (1994) Limited, which operates WTN, a special television network [relaunched April 15, 2002 as "W Network"] focused on women's programming, from Moffat Communications Ltd. ["Moffat"] for cash consideration of $205,000,000. During fiscal 2001, $150,000,000 was advanced to Moffat against the purchase price. The balance was paid upon completion of the transaction. The results of operations are included in the Company's consolidated financial statements from the date of acquisition.

[c] Tri-Co Broadcasting Limited

Effective January 4, 2002, Corus acquired all of the outstanding shares of Tri-Co Broadcasting Limited, a company that owns and operates three radio stations in Cornwall, Ontario for cash consideration of $4,250,000. The results of operations are included in the Company's consolidated financial statements from the date of acquisition.

[d] DMX Music Services

For accounting purposes, Corus recorded, effective March 1, 2002, the exchange of ownership interests in digital music subscription services to residential and commercial customers in Canada with DMX Music Inc. The transaction resulted in Corus acquiring the remaining 20% ownership of the existing Canadian residential subscription business in exchange for DMX Music Inc. gaining 100% ownership of the Canadian commercial business. Corus acquired assets with an assigned fair value of approximately $19,000,000 for which cash of approximately $11,000,000 was paid.

[e] Pro forma information – unaudited

If the acquisitions and divestitures [note 4] completed during the year ended August 31, 2002 had occurred on September 1, 2001, the Company's unaudited pro forma consolidated revenues, net loss and basic loss per share would have been $609,803,000, $170,844,000 and $4.10, respectively for the year ended August 31, 2002.

[f] WIC Western International Communications Ltd. ["WIC"]

Included in integration costs related to the acquisition of WIC in fiscal 2000 is a provision of $26,489,000 for direct acquisition costs, workforce reductions and costs to exit certain activities identified at the time of acquisition. These costs are a result of the Company's plans to consolidate facilities, restructure certain functions and integrate operating systems. The liabilities included $14,629,000 for direct acquisition costs, $7,760,000 for workforce reductions of management and certain sales,

marketing, operations, programming and administrative staff, and $4,100,000 for lease terminations and office closures. The provision was included in tangible net liabilities of WIC. During the year ended August 31, 2002, the Company charged $6,117,000 [2001 – $5,627,000] against the liability. Consequently, at August 31, 2002, a balance of $954,000 remains in the acquisition accrual relating primarily to work reductions and lease termination costs which are expected to be substantially drawn down by the fourth quarter of fiscal 2003.

Transactions completed in fiscal 2001:

[THOUSANDS OF CANADIAN DOLLARS EXCEPT FOR SHARE AMOUNTS AND PERCENTAGES]	NELVANA LIMITED [A]	METROMEDIA [B]	OTHER [C]	TOTAL
Effective date acquired	Nov. 2000	Feb. 2001		
Percentage acquired	100 %	100 %		
Cash, including transaction costs, net of cash acquired				
Fiscal 2001	332,138	129,223	1,335	462,696
Prior years	15,525	39,473	3,500	58,498
Class B Non-Voting Shares of the Company	211,022	—	—	211,022
	558,685	168,696	4,835	732,216
Integration and transaction costs, net of taxes	1,827	1,194	99	3,120
Total consideration after integration and transaction costs	560,512	169,890	4,934	735,336
ASSIGNED VALUE OF ASSETS AND LIABILITIES ACQUIRED				
Capital assets	14,880	3,806	690	19,376
Tax credits receivable	27,003	—	—	27,003
Program and film rights	—	—	3,795	3,795
Film investments	112,077	—	—	112,077
Investments	30,203	—	—	30,203
Goodwill	449,200	162,673	809	612,682
Broadcast licenses	—	38,854	—	38,854
Non-cash working capital	59,154	5,397	869	65,420
Long-term debt	(93,957)	(21,582)	(1,229)	(116,768)
Deferred credits	(3,350)	(9,900)	—	(13,250)
Future tax liability	(34,698)	(9,358)	—	(44,056)
	560,512	169,890	4,934	735,336
Number of Class B Non-Voting Shares issued	5,047,532	—	—	5,047,532

[a] Nelvana Limited

Nelvana Limited ["Nelvana"] is an international producer and distributor of children's programming and products. At August 31, 2000, the Company owned an approximate 6.7% interest in Nelvana.

On November 14, 2000, Corus completed the take-up of the outstanding subordinate voting shares of Nelvana tendered to the offer for all Nelvana subordinate voting shares made by Corus and 1421711 Ontario Inc. on October 20, 2000. Upon completion of the offer, Corus and 1421711 Ontario Inc. owned 97.7% of Nelvana's outstanding subordinate voting shares. Effective January 2, 2001, Corus completed the compulsory acquisition of the remaining 2.3% outstanding interest in Nelvana, resulting in Nelvana becoming a wholly-owned subsidiary of Corus. The acquisition was accounted for by the purchase method and the results of operations have been included in the Company's consolidated financial statements commencing November 15, 2000.

On August 24, 2001, the CRTC granted Corus the right to acquire Nelvana's 20% ownership in TELETOON Canada Inc. Accordingly, this investment has been accounted for at cost until CRTC approval on August 24, 2001 and has been accounted for on the equity basis thereafter.

Included in integration costs related to the acquisition of Nelvana is a provision of $2,978,000 for direct acquisition costs and workforce reductions identified at the time of acquisition. The workforce reductions are a result of the Company's plans to consolidate head office related functions as Nelvana ceased to operate as a stand-alone public company. The liabilities included $237,000 for direct acquisition costs, $1,141,000 for penalties on debt extinguishments, and $1,600,000 for workforce reductions of management. During the year ended August 31, 2002, the Company charged $1,124,000 against the liability. Consequently, at August 31, 2002, a balance of $546,000 [2001 – $1,670,000] remains in the acquisition accrual relating primarily to work reductions which is expected to be substantially drawn down by the fourth quarter of fiscal 2003.

[b] Metromedia CMR Broadcasting Inc. ["Metromedia"]

Metromedia operates six radio stations in Quebec. At August 31, 2000, the Company owned a 29.9% interest in Belcand Mount Royal Holdings Inc. ["Belcand"], the parent company of Metromedia.

Effective February 28, 2001, Corus acquired the remaining 70.1% of Belcand. Upon completion of the transaction, Belcand became a wholly-owned subsidiary of Corus. The acquisition was accounted for by the purchase method and the results of operations have been included in the Company's consolidated financial statements from the date of acquisition.

Included in integration costs related to the acquisition of Metromedia is a provision of $1,609,000 for direct acquisition costs and workforce reductions identified at the time of acquisition. The workforce reductions are a result of the Company's plans to consolidate facilities, restructure certain functions and integrate operating systems. The liabilities included $459,000 for direct acquisition costs and $1,150,000 for workforce reductions of management and certain sales, marketing, operations, programming and administrative staff. During the year ended August 31, 2002, the Company charged $1,008,000 [2001 – $370,000] against the liability. Consequently, at August 31, 2002, a balance of $231,000 remains in the acquisition accrual which is expected to be substantially drawn down by the fourth quarter of fiscal 2003.

[c] Balmur Corus Music Inc. ["BCM"]

BCM is a music and television production business. At August 31, 2000, the Company owned a 50% interest in BCM.

Effective March 31, 2001, Corus acquired the remaining 50% of BCM for $3,725,000. Upon completion of the transaction, BCM became a wholly-owned subsidiary of Corus. The acquisition was accounted for by the purchase method and the results of operations have been included in the Company's consolidated financial statements from the date of acquisition [note 21].

[d] WIC Western International Communications Ltd. ["WIC"]

Included in integration costs related to the acquisition of WIC in fiscal 2000 is a provision of $26,489,000 for direct acquisition costs, workforce reductions and costs to exit certain activities identified at the time of acquisition. These costs are a result of the Company's plans to consolidate facilities, restructure certain functions and integrate operating systems. The liabilities included $14,629,000 for direct acquisition costs, $7,760,000 for workforce reductions of management and certain sales, marketing, operations, programming and administrative staff, and $4,100,000 for lease terminations and office closures. The provision was included in tangible net liabilities of WIC. During the year ended August 31, 2001, the Company charged $5,627,000 [2000 – $13,791,000] against the liability. Consequently, at August 31, 2001, a balance of $7,071,000 remains in the acquisition accrual relating primarily to work reductions and lease termination costs which are expected to be substantially drawn down by the fourth quarter of fiscal 2003.

04 divestitures

[a] Klutz

On April 8, 2002, Corus sold Klutz, its U.S. publishing business to Scholastic Inc. for approximately $68,000,000 [U.S.$43,000,000] in cash plus a three-year earn-out based on revenue resulting in a pre-tax gain of approximately $900,000. Additional consideration, once determinable, will be recorded as a gain on sale once earned.

[b] Corus VC Ltd.

Effective May 31, 2002, Corus sold all of its outstanding shares in Corus VC Ltd., which operates the Viewer's Choice Pay-Per-View Service, to Shaw Communications Inc. ["Shaw"] for consideration of $33,000,000. The transaction resulted in a pre-tax gain of approximately $3,000,000.

[c] The Comedy Network Inc.

On October 11, 2001, Corus acquired an additional 14.95% interest in The Comedy Network Inc., increasing its total ownership interest to 29.9%. The specialty channel provides programming such as Canadian and foreign comedy series, comedy sketches, variety and human interest programs. On December 18, 2001, Corus disposed of its 29.9% interest to CTV Inc. for cash consideration of $36,000,000, resulting in a pre-tax gain of approximately $17,967,000. This investment was accounted for using the cost method throughout the period.

[d] CHAU-TV

Effective February 28, 2001, Corus sold its Quebec conventional television station CHAU-TV for the base price of $7,000,000 plus other consideration and a working capital adjustment of approximately $1,800,000, resulting in a pre-tax gain of approximately $900,000.

[e] The Family Channel Inc.

Effective May 30, 2001, Corus sold its 50% interest in The Family Channel Inc., held by a wholly-owned subsidiary, to Astral Media Inc., for $126,900,000, resulting in a pre-tax gain of approximately $102,000,000.

05 joint ventures

The following amounts, included in these consolidated financial statements, represent the Company's proportionate share in joint ventures:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
BALANCE SHEETS		
Assets	**9,243**	3,092
Liabilities	**11,818**	2,072
Shareholders' equity (deficiency)	**(2,575)**	1,020
STATEMENTS OF INCOME		
Revenues	**2,385**	—
Expenses	**8,137**	—
Net loss	**(5,752)**	—
CASH FLOWS		
Operating activities	**(4,279)**	—
Investing activities	**(8,558)**	(1,954)
Financing activities	**12,837**	1,954

06 accounts receivable

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
Trade	**163,558**	168,481
Receivable from co-venturers	—	2,442
Dividends receivable	—	1,632
GST receivable	**337**	1,602
Other	**5,603**	5,663
	169,498	179,820
Less allowance for doubtful accounts	**2,848**	4,811
	166,650	175,009

07 inventories

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
Raw materials	—	5,419
Finished goods	**4,230**	19,312
	4,230	24,731

08 investments and other assets

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
INVESTMENTS, AT EQUITY		
Telelatino Network Inc.		
[20% interest until November 16, 2001 and 50.5% thereafter] [note 3]	—	2,027
TELETOON Canada Inc.		
[20% interest until August 24, 2001 and 40% thereafter] [note 3]	**37,733**	33,273
The Locomotion Channel/Locomotion Channel B.V. [i]	**13,368**	—
INVESTMENTS, AT COST		
Women's Television Network [note 3]	—	150,079
Astral Media Inc. [market value – 2002 – $7,654; 2001 – $99,027] [ii]	**13,861**	114,576
Other [note 28]	**19,793**	19,799
	84,755	319,754

[i] The Locomotion Channel/Locomotion Channel B.V.

On May 17, 2002, the Company acquired a 50% interest in The Locomotion Channel, an action-oriented animation pay television service for a maximum consideration of approximately $16,250,000 [U.S.$10,500,000] less a holdback in the event of certain economic changes that may impact revenue projections. Cash consideration of approximately $13,000,000 [U.S.$8,400,000] was paid during the third quarter of fiscal 2002. The investment was accounted for using the equity method from the date of acquisition.

[ii] Astral Media Inc.

During fiscal 2001, the Company, through a wholly-owned subsidiary, purchased 2,029,000 Class A non-voting shares and 145,600 Class B subordinate voting shares of Astral Media Inc. from Shaw for approximately $110,000,000. These shares have been pledged against the securitized borrowing as described in note 14.

On October 31, 2001, the Company, through a wholly-owned subsidiary, disposed of 1,000,000 Class A non-voting shares of Astral Media Inc. for $43,000,000, resulting in a pre-tax loss of approximately $4,700,000. These shares were pledged against a securitized borrowing that matured as described in note 14.

On April 2, 2002, the remaining 1,000,000 Class A non-voting shares pledged against the securitized borrowing were disposed of for $50,500,000, resulting in a pre-tax gain of approximately $2,250,000. The securitized borrowing was repaid in full upon sale of the shares. See also note 14.

09 capital assets

[THOUSANDS OF CANADIAN DOLLARS]	2002 COST	2002 ACCUMULATED DEPRECIATION	2001 COST	2001 ACCUMULATED DEPRECIATION
Broadcasting head-end equipment	28,565	19,096	43,865	24,941
Production equipment	81,266	53,835	59,144	37,082
Leasehold improvements	29,418	11,648	23,229	9,743
Buildings	21,624	6,124	19,351	5,279
Computer equipment	33,792	20,785	19,092	11,434
Furniture and fixtures	23,972	14,994	27,834	16,313
Other	2,533	1,873	11,899	2,933
	221,170	128,355	204,414	107,725
Land	8,026	—	8,255	—
	229,196	128,355	212,669	107,725
Net book value		100,841		104,944

Depreciation provided in the accounts on capital assets amounted to $25,858,000 [2001 – $19,960,000; 2000 – $8,995,000].

10 film investments

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
		[restated – note 2[b]]
Projects in development, net of advances	4,140	7,287
Projects in process	26,825	30,745
Completed projects and distribution rights	109,636	108,551
	140,601	146,583

During fiscal 2002, the Company reduced its investment in film and television programs by anticipated Federal and Ontario production tax credits amounting to $15,392,000 [2001 – $11,600,000].

The Company estimates that 60% of unamortized film costs, excluding acquired film libraries, will be amortized within three years from August 31, 2002. It is estimated that at least 80% will be amortized within five years.

The Company also generates revenue from productions which have been fully amortized in prior years and are not valued in the accounts.

11 deferred charges

[THOUSANDS OF CANADIAN DOLLARS]	2002 COST	2002 ACCUMULATED AMORTIZATION	2001 COST	2001 ACCUMULATED AMORTIZATION
Financing costs and credit facility arrangement fees	27,925	4,786	9,932	2,392
Foreign exchange gains on translating long-term debt	—	—	16,288	—
Start-up costs of new specialty programming networks	12,796	6,858	9,133	2,550
Advertising and promotion costs for reformatting radio, specialty and pay television stations	11,366	3,140	6,481	151
Other	1,318	1,135	1,261	1,055
	53,405	15,919	43,095	6,148
Net book value		37,486		36,947

Amortization provided in the accounts on deferred charges amounted to $7,709,000 [2001 – $3,529,000; 2000 – $1,952,000].

12 broadcast licenses, other intangibles and goodwill

[THOUSANDS OF CANADIAN DOLLARS]	2002 COST	2002 ACCUMULATED AMORTIZATION	2001 COST	2001 ACCUMULATED AMORTIZATION
			[restated – note 2[b]]	
Broadcast licenses and other intangibles	**531,155**	**48,561**	469,896	48,757
Goodwill	**815,053**	**33,680**	966,579	33,947
	1,346,208	**82,241**	1,436,475	82,704

The changes in the carrying amounts of broadcast licenses, other intangibles and goodwill since August 31, 2001 are summarized as follows:

[THOUSANDS OF CANADIAN DOLLARS]	2001	ADDITIONS	DISPOSALS	IMPAIRMENT LOSSES	AMORTIZATION/OTHER	2002
	[restated – note 2[b]]					
Broadcast licenses						
and other intangibles	421,139	87,687	(16,403)	(9,532)	(297)	**482,594**
Goodwill						
Television	137,437	193,635	(8,722)	(3,240)	(55)	**319,055**
Radio	412,931	2,312	—	—	(263)	**414,980**
Content						
Production and distribution	241,093	—	—	(216,000)	(140)	**24,953**
Branded consumer products	141,171	649	(35,435)	(84,000)	—	**22,385**
	932,632	196,596	(44,157)	(303,240)	(458)	**781,373**

In February 2002, total goodwill impairment loss of $150,000,000 was recognized upon adoption of CICA Section 3062 and reflected as an adjustment to retained earnings as at September 1, 2001. The total goodwill impairment loss was comprised of $66,000,000 related to the production and distribution business and $84,000,000 related to the branded consumer products business.

The Company has selected August 31 as the date it will perform its annual impairment test and has determined that there was a further impairment of goodwill during fiscal 2002 of $153,240,000 of which $150,000,000 related to the production and distribution business in the Content division and $3,240,000 related to the Television division. To determine the amount of the impairment, management used a fair value methodology based on market transaction multiples for comparable businesses applied to forecasted operating income used to evaluate the reporting units performance.

Amortization provided in the accounts on broadcast licenses, other intangibles and goodwill amounted to $297,000 [2001 – $42,429,000; 2000 – $11,431,000]. During 2002, amortization was provided on finite life intangibles.

13 accounts payable and accrued liabilities

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
Trade	**96,408**	77,237
Program rights payable	**34,943**	34,141
Accrued interest	**27,836**	172
Restructuring	**11,342**	—
Acquisition and integration costs	**1,883**	10,182
Third party participation payments	**3,922**	5,632
GST payable	**896**	1,057
Other	**1,047**	11,881
	178,277	140,302

14 securitized borrowing

During the third quarter of fiscal 2001, Corus entered into a borrowing arrangement with a financial institution for $89,500,000 which was collateralized by 2,000,000 Astral Media Inc. shares ["Astral shares"]. The borrowing was repaid in full on October 31, 2001 and a new borrowing arrangement was entered into for $44,750,000 which was collateralized by 1,000,000 Astral shares. The borrowing was repaid in full on April 30, 2002 [note 8].

15 long-term debt

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
Bank loans [a]	**61,558**	614,518
Senior subordinated notes [b]	**584,550**	—
Other	**2,897**	6,283
	649,005	620,801
Less current portion	**2,391**	6,382
	646,614	614,419

[a] Bank loans

The Company has a $25,000,000 revolving operating loan facility with interest rates and borrowing options, which are the same as those contained in the credit facilities described below.

A syndicate of banks has provided the Company with various credit facilities [the "facility"], which at August 31, 2002 amounted to $427,500,000, $277,500,000 of which is revolving on a reducing basis until repayment on August 31, 2006. As at August 31, 2002, $215,942,000 of the $277,500,000 facility was not utilized. The balance of the facility, $150,000,000, is a revolving credit facility expiring on April 29, 2003, but is extendible at the Company's option for a further period of 364 days. As at August 31, 2002, the facility was undrawn. Funds are available to the Company in both Canadian and U.S. dollars. At August 31, 2002, the U.S. portion of the bank loans was $35,000,000 [Cdn.$54,558,000] [2001 – U.S.$147,000,000; Cdn.$228,000,000].

Interest rates on the balance of the bank loans fluctuate with the Canadian bankers' acceptances and LIBOR and averaged 6.7% for the year ended August 31, 2002 [2001 – 6.8%].

At August 31, 2001, the Company had a non-revolving term loan outstanding of U.S.$147,000,000 [Cdn.$228,000,000 translated at the exchange rate at August 31, 2001] as well as a cross-currency interest rate agreement on the U.S. denominated debt to fix the interest at 11.4% and liability for interest and principal payments at Cdn.$212,000,000. During the year, the non-revolving term loan was repaid in full and the cross-currency interest rate agreement was unwound.

The banks hold as collateral a first ranking charge on all assets and undertakings of Corus and certain of Corus' subsidiaries as designated under the credit agreements. As well, unlimited guarantees are provided by certain subsidiaries. Under the credit facilities, the Company has undertaken to maintain certain financial covenants. The Company was in compliance with the covenants provided under the bank loans at August 31, 2002.

[b] Senior subordinated notes

On March 7, 2002, Corus issued U.S.$375,000,000 aggregate principal amount of 8 3/4% Senior Subordinated Notes [the "Notes"] due 2012 at a price of 99.186% of their aggregate principal amount.

The Company has entered into cross-currency interest rate agreements to fix the liability for interest and principal payments on the Notes. The agreements have resulted in an effective interest rate of 9.33% on the Canadian dollar equivalent of the U.S. debt. The exchange rate applicable to the principal portion of the debt has been fixed at Cdn.$1.6107 or approximately Cdn.$604,000,000.

The net proceeds from this offering were used to repay existing indebtedness including the permanent repayment in full of the Company's reducing term loans of Cdn.$294,000,000 due on August 31, 2007. Consequently, the Company unwound U.S.$147,000,000 of cross-currency interest rate swaps relating to the reducing term loan that had fixed the interest rate at 11.4% and liability for interest and principal payments at Cdn.$212,000,000, resulting in a non-cash hedge transaction loss of approximately $17,636,000.

Principal repayments on long-term debt in each of the next five years and thereafter are approximately as follows:

[THOUSANDS OF CANADIAN DOLLARS]	$
2003	2,391
2004	367
2005	—
2006	61,558
2007	—
Thereafter	584,689
	649,005

16 deferred credits

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
CRTC benefits	**54,756**	39,855
Foreign exchange gains on translating long-term debt	**19,450**	3,262
Unearned revenue from distribution and licensing of film rights	**1,511**	11,413
Other	**914**	1,714
	76,631	56,244

17 share capital

AUTHORIZED

The Company is authorized to issue an unlimited number of Class A participating shares ["Class A Voting Shares"], Class B non-voting participating shares ["Class B Non-Voting Shares"], Class A Preferred Shares, and Class 1 and Class 2 preferred shares.

Class A Voting Shares are convertible at any time into an equivalent number of Class B Non-Voting Shares. The Class B Non-Voting Shares are convertible into an equivalent number of Class A Voting Shares in limited circumstances.

The Class A Preferred Shares are redeemable at any time at the demand of Corus and retractable at any time at the demand of a holder of a Class A Preferred Share for an amount equal to the consideration received by Corus at the time of issuance of such Class A Preferred Shares. Holders of Class A Preferred Shares are entitled to receive a non-cumulative dividend at such rate as Corus' Board of Directors may determine on the redemption amount of the Class A Preferred Shares. Each of the Class 1 preferred shares, the Class 2 preferred shares, the Class A Voting Shares and the Class B Non-Voting Shares rank junior to and are subject in all respects to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the Class A Preferred Shares in connection with the payment of dividends.

The Class 1 and 2 preferred shares are issuable in one or more series with attributes designated by the Board of Directors. The Class 1 preferred shares rank senior to the Class 2 preferred shares.

In the event of liquidation, dissolution or winding up of Corus or other distribution of assets of Corus for the purpose of winding up its affairs, the holders of Class A Preferred Shares are entitled to a payment in priority to all other classes of shares of Corus to the extent of the redemption amount of the Class A Preferred Shares, but will not be entitled to any surplus in excess of that amount. The remaining property and assets will be available for distribution to the holders of the Class A Voting Shares and Class B Non-Voting Shares which shall be paid or distributed equally, share for share, between the holders of the Class A Voting Shares and the Class B Non-Voting Shares, respectively without preference or distinction.

ISSUED AND OUTSTANDING

The changes in the Class A Voting and Class B Non-Voting Shares since August 31, 2000 are summarized as follows:

[THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF SHARES]	CLASS A VOTING SHARES (#)	$	CLASS B NON-VOTING SHARES (#)	$	TOTAL
Balance, August 31, 2000	1,851,709	28,679	35,673,574	642,015	670,694
Conversion of Class A Voting to Class B Non-Voting Shares	(9,032)	(140)	9,032	140	—
Issuance of shares under Stock Option Plan	—	—	31,060	800	800
Issued on business acquisitions [note 3]	—	—	5,047,532	211,022	211,022
Balance, August 31, 2001	1,842,677	28,539	40,761,198	853,977	882,516
Conversion of Class A Voting to Class B Non-Voting Shares	(3,965)	(61)	3,965	61	—
Issuance of shares under Stock Option Plan	—	—	37,425	944	944
Executive stock purchase loans	—	—	—	(2,045)	(2,045)
Balance, August 31, 2002	**1,838,712**	**28,478**	**40,802,588**	**852,937**	**881,415**

STOCK OPTION PLAN

Under the Company's Stock Option Plan [the "Plan"], the Company may grant options to purchase Class B Non-Voting Shares to eligible officers, directors, and employees of or consultants to the Company. The maximum number of shares that can be reserved for issuance under the Plan is 2,852,670. All options granted are for terms not to exceed ten years from the grant date. The exercise price of each option equals the market price of the Company's stock on the date of the grant. Options vest 25% on each of the first, second, third and fourth anniversary dates of the date of grant.

A summary of the options outstanding at August 31, 2002 and the changes since August 31, 2000 is presented as follows:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE ($)
Outstanding, August 31, 2000	927,250	25.48
Granted	970,443	39.94
Exercised	(31,060)	25.73
Cancelled	(8,700)	35.61
Outstanding, August 31, 2001	1,857,933	32.98
Granted	927,742	30.14
Exercised	(37,425)	25.25
Cancelled	(129,212)	32.44
Outstanding, August 31, 2002	**2,619,038**	**32.11**

At August 31, 2002, the outstanding options consist of the following:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
EXPIRY DATE	(#)	RANGE OF EXERCISE PRICES ($)	WEIGHTED AVERAGE EXERCISE PRICE ($)	(#)	WEIGHTED AVERAGE EXERCISE PRICE ($)
2005	833,575	25.25 – 37.00	25.78	527,503	25.84
2006	891,663	34.50 – 44.00	40.02	183,496	40.10
2007	893,800	23.80 – 34.99	27.06	—	—
	2,619,038	**23.80 – 44.00**	**32.11**	**710,999**	**29.52**

On September 1, 2002, the Company granted a further 535,000 options for Class B Non-Voting Shares to eligible officers, directors, and employees of or consultants to the Company subject to approval by the shareholders to the amendment of the Plan. These options are exercisable at $20.25 per share.

DIVIDENDS

The holders of Class A Voting and Class B Non-Voting Shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid. The holders of Class B Non-Voting Shares are entitled to receive during each dividend period, in priority to the payment of dividends on the Class A Voting Shares, an additional dividend at a rate of $0.01 per share per annum. This additional dividend is subject to proportionate adjustment in the event of future consolidations or subdivisions of shares and in the event of any issue of shares by way of stock dividend. After payment or setting aside for payment of the additional non-cumulative dividends on the Class B Non-Voting Shares, holders of Class A Voting and Class B Non-Voting Shares participate equally, on a share-for-share basis, on all subsequent dividends declared.

EXECUTIVE STOCK PURCHASE LOANS

In October 2001, the Board of Directors of the Company authorized the granting of loans to certain of its executive officers in order to finance the acquisition of Class B Non-Voting Shares of the Company on the open market. During the year ended August 31, 2002, the Company made loans in an aggregate amount of $2,045,000 to certain qualifying executive officers. These loans are non-interest bearing and are secured by a promissory note and the relevant Class B Non-Voting Shares. Each loan has a ten-year term from December 1, 2001 with annual instalments of the greater of 10% of the original principal or 10% of the employee's pre-tax bonus for the most recently completed financial year of the Company. At August 31, 2002, the market value of the shares held as collateral for the loans was $928,462.

18 income taxes

[a] Future income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax liabilities and assets as at August 31 are as follows:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001 *[restated – note 2[b]]*
FUTURE TAX LIABILITY		
Deferred charges deducted for tax purposes capitalized for accounting purposes	**7,424**	6,765
Capital cost allowance in excess of book depreciation	**919**	747
Deferred partnership income	**3,468**	5,642
Differences in tax and accounting cost bases for investments	**46,384**	45,968
Broadcast licenses and other intangibles	**116,491**	96,342
Purchase price equation differences	**25,000**	27,539
Other, net	**10,136**	3,216
Total future tax liability	**209,822**	186,219
FUTURE TAX ASSET		
Book depreciation in excess of capital cost allowance	**20,733**	5,768
Employment obligations recognized on purchase equation	**338**	343
Loss carryforwards, net of valuation allowances	**22,483**	8,821
Deferred charges deducted for accounting purposes in excess of tax purposes	**2,989**	473
Differences in tax and accounting cost bases for investments	**1,619**	—
Revenue recognition differences between tax and accounting purposes	**6,627**	4,303
Purchase price equation differences	**756**	4,565
Other, net	**1,852**	317
Total future tax asset	**57,397**	24,590
Net future tax liability	**152,425**	161,629

[b] Significant components of the income tax expense (recovery) attributable to operations are as follows:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001	2000
Current tax expense	**29,790**	51,248	11,599
Future income tax expense (recovery) relating to origination and reversal of temporary differences	**(8,522)**	(15,474)	63,508
Future income tax recovery resulting from recognition of losses incurred in the year	**(17,541)**	(4,986)	(8,007)
Future income tax recovery resulting from tax rate changes	**(160)**	(42,258)	(2,032)
Other	**(8,713)**	8,377	702
Income tax expense (recovery)	**(5,146)**	(3,093)	65,770

[c] The reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax expense (recovery) is as follows:

	2002		2001		2000	
[THOUSANDS OF CANADIAN DOLLARS]	AMOUNT ($)	%	AMOUNT ($)	%	AMOUNT ($)	%
Tax at combined federal and provincial rates	**(68,185)**	**39.8**	53,457	42.7	95,658	43.5
Differences from statutory rates relating to:						
Amortization of goodwill	**63,640**	**(37.2)**	14,462	11.6	1,362	0.6
Non-taxable portion of net capital gains on sale of investments	**(16,345)**	**9.5**	(40,329)	(32.2)	(30,263)	(13.8)
Reduction in future income taxes resulting from statutory rate reduction	**(160)**	**0.1**	(42,258)	(33.8)	(2,032)	(0.9)
Reversal in current period of temporary differences originally recorded using long-term tax rates	**8,451**	**(4.9)**	2,658	2.1	—	—
Other	**7,453**	**(4.3)**	8,917	7.1	1,045	0.5
	(5,146)	**3.0**	(3,093)	(2.5)	65,770	29.9

[d] The Company recognizes as a future tax asset the benefit of investment tax credits and capital loss carryforwards to the extent it is more likely than not that the benefit will be realized. At August 31, 2002, the Company has available loss carryforwards of approximately $76,500,000 which expire between 2003 and 2009. A future tax asset of $22,400,000 [2001 – $8,800,000] has been recognized in respect of these carryforwards, net of a valuation allowance of $5,000,000 [2001 – $2,000,000].

The available loss carryforwards will expire as follows:

[THOUSANDS OF CANADIAN DOLLARS]	$
2003	1,100,000
2004	1,700,000
2005	1,400,000
2006	4,400,000
2007	700,000
2008	4,100,000
2009	48,500,000
2021	4,500,000
2022	300,000
No expiration – capital losses	9,800,000
	76,500,000

19 business segment information

The Company's business activities are conducted through three reportable operating segments:

[A] RADIO BROADCASTING ["RADIO"]

The Radio segment is comprised of 50 radio stations, subject to CRTC approval of the divestiture of two Oshawa radio stations [2001 – 49 radio stations], situated primarily in high growth urban centres in Canada. Revenues are derived from advertising aired over these stations.

[B] TELEVISION

The Television segment includes interests in several specialty television networks, pay television and pay-per-view services, several conventional television stations, digital audio services and cable advertising services. Revenues are generated from affiliate subscriber fees and advertising.

[C] CONTENT

The Content segment includes the production and distribution of film and television programs and the branded consumer products business [formerly merchandise licensing and publishing businesses] of Nelvana which was acquired in fiscal 2001. Revenues are generated from licensing of proprietary films and television programs, merchandise licensing and publishing.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Management evaluates the business segments' performance based on revenues less operating, general and administrative expenses.

[a] Operating revenues and margin

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001	2000
REVENUES			
Radio	**211,416**	191,773	86,241
Television	**284,684**	228,693	142,989
Content			
Production and distribution	**99,357**	81,287	—
Branded consumer products	**60,558**	56,119	—
Eliminations	**(3,231)**	(1,047)	—
	652,784	556,825	229,230
SEGMENT PROFIT			
Radio	**52,853**	48,063	26,700
Television	**90,051**	73,728	42,846
Content			
Production and distribution	**(28,797)**	8,509	—
Branded consumer products	**7,843**	3,616	—
Corporate	**(4,871)**	(9,461)	(4,010)
Eliminations	**(583)**	(539)	—
	116,496	123,916	65,536

For the year ended August 31, 2002, expenditures for the Corporate segment of $4,871,000 [2001 – $9,461,000; 2000 – $4,010,000] represent the incremental cost of corporate overhead that is not allocated to the operating segment.

During fiscal 2002, two customers accounted for approximately 25% and 8% of production and distribution revenues, respectively for the Content segment.

Gross revenues are derived from the following geographical sources by location of customer as follows:

	2002	2001	2000
Canada	**520,328**	442,743	229,230
United States	**87,166**	75,277	—
International	**45,290**	38,805	—
	652,784	556,825	229,230

[b] Segment assets

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
Radio	**334,209**	344,170
Television	**472,507**	470,644
Content		
Production and distribution	**271,252**	292,566
Branded consumer products	**14,519**	45,734
Corporate	**833,791**	1,117,236
Eliminations	**(1,122)**	(539)
	1,925,156	2,269,811

[c] Capital expenditures by segment

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001	2000
Radio	**12,740**	10,326	1,534
Television	**5,213**	20,040	6,396
Content			
Production and distribution	**3,422**	2,951	—
Branded consumer products	**217**	403	—
Corporate	**6,335**	7,379	2,045
	27,927	41,099	9,975

Capital assets and goodwill are located primarily within Canada.

20 restructuring charges

Restructuring charges consist of the following:

[THOUSANDS OF CANADIAN DOLLARS]	TOTAL	CUMULATIVE CASH PAYMENTS	NON-CASH CHARGES	PROVISION BALANCE AS AT AUGUST 31, 2002
Workforce reduction [i]	**15,986**	**8,692**	—	**7,294**
Contract settlement and lease costs [ii]	**5,396**	**1,609**	—	**3,787**
Other [iii]	**707**	**237**	**209**	**261**
	22,089	**10,538**	**209**	**11,342**

In light of the current economic climate, the Company has taken steps to reduce debt and improve operating margins by streamlining operations and exiting activities not aligned with its core assets.

During 2002, the Company recorded restructuring charges of $22,089,000, which included the following:

[i] Workforce reduction charges of $15,986,000 relating to the cost of severance and benefits associated with approximately 410 job positions. Of the 410 positions, approximately 130, 150 and 130 were from the Radio, Television and Content divisions, respectively and included management, sales, marketing, operations, programming and administrative staff. As at August 31, 2002, the workforce reduction provision balance has been drawn down by cash payments totalling $8,692,000, resulting in an ending provision balance of $7,294,000. The remaining provision is expected to be substantially drawn down by the end of fiscal 2003.

[ii] Contract settlement costs of $5,396,000 relating to provisions for negotiated settlements to cancel programming contracts at the Radio division and future contractual obligations under operating leases for facilities that will no longer be required. As at August 31, 2002, the provision for contract settlement and lease costs has been drawn down by cash payments totalling $1,609,000, resulting in an ending provision balance of $3,787,000.

[iii] Other costs of $707,000 have been drawn down by cash payments totalling $237,000. The provision balance as at August 31, 2002 was $261,000.

21 asset write-downs

As part of the Company's restructuring plan announced in the first quarter of 2002, management focused on exiting activities not aligned with its core assets. As a result, the following investments were either discontinued or disposed of subsequent to the year end. The carrying values of these investments were written down at August 31, 2002 as follows:

[THOUSANDS OF CANADIAN DOLLARS]	$
Local Media Internet Venture	**6,869**
Balmur Corus Music Inc.	**4,000**
Liberty Digital Inc.	**2,171**
Other	**2,200**
	15,240

22 financial instruments

FAIR VALUES

The fair values of financial instruments have been determined as follows:

[i] Current assets and current liabilities

The fair values of financial instruments included in current assets and current liabilities approximate their carrying values due to their short-term nature.

[ii] Investments and other assets

[a] The fair value of publicly traded shares included in this category is determined by the closing market values for those investments.

[b] The fair value of other investments in this category is not determinable.

[iii] Long-term debt

The carrying value of the Company's bank loans approximates their fair value because interest charges under the terms of the bank loans are based upon current Canadian bank prime and bankers' acceptance rates and on U.S. bank base and LIBOR rates.

[iv] Derivative financial instruments

The fair value of cross-currency interest rate and securitized borrowing agreements is based on quotations by the counterparties to the agreements.

The estimated fair values of derivative financial instruments are as follows:

	2002		2001	
[THOUSANDS OF CANADIAN DOLLARS]	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Cross-currency interest rate agreements	—	**(11,318)**	—	(5,067)
Securitized borrowing agreements	—	—	(89,500)	(90,000)
	—	**(11,318)**	(89,500)	(95,067)

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

CREDIT RISKS AND CONCENTRATION

Credit risks associated with interest rate and cross-currency exchange agreements arise from the ability of counterparties to meet the terms of the contracts. In the event of non-performance by the counterparties, the Company's accounting loss would be limited to the net amount that it would be entitled to receive under the contracts and agreements. These risks are mitigated by dealing with major creditworthy financial institutions.

Accounts receivable resulting from advertising and affiliate subscriber fee revenues are not subject to any concentration of credit risk.

Accounts receivable from distribution and licensing of proprietary exploitation rights of feature films and television programs are subject to credit risk. The risk is mitigated because the Company enters into license and distribution contracts with many major international broadcasters and distributors.

Accounts receivable from Canadian federal government and other government agencies in connection with production on financing represents 15% of the total accounts receivable balance at August 31, 2002 and 2001. The Company believes that there is minimal risk associated with the collection of these amounts.

23 earnings per share

The following is a reconciliation of the numerators and denominators used for the computation of the basic and diluted earnings per share amounts:

[THOUSANDS OF CANADIAN DOLLARS EXCEPT SHARE AMOUNTS]	2002	2001	2000
Net income (loss) for the year [numerator]	**(166,037)**	128,167	155,984
Weighted average number of shares outstanding [denominator]			
Weighted average number of shares outstanding – basic	**42,621**	41,539	33,379
Effect of dilutive securities	—	280	491
Weighted average number of shares outstanding – diluted	**42,621**	41,819	33,870

24 consolidated statements of cash flows

Additional disclosures with respect to the consolidated statements of cash flows are as follows:

[i] Net change in non-cash working capital balances related to operations consists of the following:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001	2000
Accounts receivable	**12,748**	(17,032)	(6,742)
Prepaid expenses and other	**3,913**	1,024	1,896
Inventories	**2,665**	(7,690)	—
Accounts payable and accrued liabilities	**21,536**	(3,029)	18,851
Income taxes payable	**(19,019)**	12,899	5,742
	21,843	(13,828)	19,747

[ii] Interest paid, interest received, dividends received and income taxes paid and classified as operating activities are as follows:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001	2000
Interest paid	**32,349**	47,238	36,102
Interest received	**2,573**	8,313	9,728
Dividends received	**1,597**	826	1,190
Income taxes paid	**49,791**	35,400	3,357

[iii] Non-cash transactions

The consolidated statements of cash flows exclude the following non-cash transactions:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001	2000
Common shares issued on acquisitions [note 3]	—	211,022	199,855
Accounts payable and accrued liabilities relating to capital assets	—	4,054	—

25 reconciliation of canadian GAAP to U.S. GAAP

The consolidated financial statements of the Company are prepared in Canadian dollars in accordance with Canadian GAAP. The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with United States generally accepted accounting principles ["U.S. GAAP"].

[A] RECONCILIATION TO U.S. GAAP

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001	2000
Net income (loss) using Canadian GAAP	**(166,037)**	128,167	155,984
Add (deduct) adjustments for			
Deferred charges [1]	**(1,294)**	(10,134)	431
Foreign exchange gains (losses) [2]	**(3,262)**	(804)	4,066
Equity in earnings of investees [3]	—	1,283	7,692
Dividend income [3]	—	(690)	—
Transaction gain (loss) [5]	**(1,385)**	4,617	—
Reversal of net derivative loss deferred in other comprehensive income [5]	—	(1,996)	—
Adoption of SOP 00-2 [6]	**(13,473)**	5,418	—
Adoption of FAS 142 [7]	**(150,000)**	—	—
Income tax effect of adjustments	**5,112**	4,525	(6,828)
Net income (loss) using U.S. GAAP	**(330,339)**	130,386	161,345
Unrealized gains (losses) on investments classified as available for sale, net of tax [4]	**(647)**	(13,369)	4,040
Realized gains (losses) on investments classified as available for sale, net of tax	**5,605**	—	(19,781)
Unrealized gain (loss) on derivative contracts [5]	**23,573**	(16,661)	—
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	**546**	940	—
Comprehensive income (loss) using U.S. GAAP	**(301,262)**	101,296	145,604

	2002	2001	2000
Net income (loss) per share prior to cumulative catch-up using U.S. GAAP			
Basic	(4.01)	3.03	—
Diluted	(4.01)	3.01	—
Net income (loss) per share related to cumulative catch-up using U.S. GAAP			
Basic	(3.74)	0.11	—
Diluted	(3.74)	0.11	—
Net income (loss) per share using U.S. GAAP			
Basic	(7.75)	3.14	4.83
Diluted	(7.75)	3.12	4.76
Comprehensive income (loss) per share using U.S. GAAP			
Basic	(7.07)	2.44	4.36
Diluted	(7.07)	2.42	4.30

BALANCE SHEET ITEMS USING U.S. GAAP

[THOUSANDS OF CANADIAN DOLLARS]	2002		2001	
	CANADIAN GAAP	U.S. GAAP	CANADIAN GAAP	U.S. GAAP
Investments and other assets [3]	84,755	87,576	319,754	312,490
Film investments [6]	140,601	140,601	146,583	160,056
Deferred charges [1]	37,486	23,140	36,947	14,822
Broadcast licenses, other intangibles and goodwill [6]	1,263,967	1,259,213	1,353,771	1,349,017
Deferred credits [2]	76,631	57,181	56,244	52,982
Securitized borrowing [5]	—	—	89,500	90,000
Interest rate swap liability [5]	—	11,318	—	5,067
Future tax liability	150,177	148,092	150,942	148,258
Shareholders' equity	851,015	844,952	1,167,607	1,147,315

The cumulative effect of these adjustments on shareholders' equity is as follows:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
Deferred charges [1] and [5]	(8,608)	(7,570)
Foreign exchange gains [2]	—	2,517
Equity in earnings of investees [3]	4,758	4,758
Adoption of SOP 00-2 [6]	(4,754)	4,608
Accumulated other comprehensive income:		
Unrealized losses on investments [4]	(4,371)	(9,329)
Unrealized gain (loss) on derivative contracts [5]	6,912	(15,276)
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	1,486	940
Total cumulative adjustments on shareholders' equity	(4,577)	(19,352)

Areas of material difference between Canadian GAAP and U.S. GAAP and their impact on the consolidated financial statements are as follows:

[1] Deferred charges

Start-up costs of new specialty programming networks and costs associated with reformatting radio stations are deferred and amortized under Canadian GAAP. Under U.S. GAAP, these costs are expensed as incurred.

[2] Foreign exchange gains (losses)

Foreign exchange gains (losses) on translation of long-term debt are deferred and not amortized as a result of there being an effective hedge in place under Canadian GAAP. Under U.S. GAAP, gains (losses) are to be included in income when incurred.

[3] Equity in earnings of investees

The earnings of investees determined under Canadian GAAP have been adjusted to reflect U.S. GAAP. Under Canadian GAAP, the investment in Nelvana's 20% interest in TELETOON Canada Inc. in fiscal 2001 and WIC in fiscal 2000 were accounted for using the cost method of accounting until CRTC approval was received for the transactions. When the Company received CRTC approval, the amount in the accounts under the cost method became the basis for the purchase price allocation and equity accounting commenced. Under U.S. GAAP, equity accounting for the investments was done retroactively to the date the Company first acquired shares in Nelvana and WIC.

[4] Unrealized gains (losses) on investments

Under U.S. GAAP, equity securities having a readily determinable fair value and not classified as trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses included in comprehensive income and reported as a separate component of shareholders' equity net of related deferred income taxes.

Under Canadian GAAP, these investments are carried at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

[5] Derivative instruments and hedging activities

Under U.S. GAAP, all derivative instruments are to be recorded on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through income or deferred in other comprehensive income until the hedged item is recognized in income.

[6] Adoption of SOP 00-2

Under Canadian GAAP, adoption of a new accounting standard is applied retroactively including a revision to the purchase price equation for the Nelvana acquisition. Under U.S. GAAP, the adoption of SOP 00-2 is reflected in the statement of income of the adoption year. As such, under U.S. GAAP the effect of the adoption of SOP 00-2 is reflected as a cumulative catch-up adjustment in income of fiscal 2002. The increased amortization from adopting these accounting policies retroactively under Canadian GAAP has therefore been added back in the determination of pro forma net income under U.S. GAAP for the year ended August 31, 2001.

Accounting for SOP 00-2 also gives rise to a balance sheet difference. Under Canadian GAAP the adjustment to broadcast licenses, other intangibles and goodwill is recorded retroactively, with an adjustment to opening consolidated retained earnings which therefore impacts the 2001 consolidated balance sheet. Under U.S. GAAP, the adjustment is applied as a cumulative adjustment to the current year's consolidated income which therefore impacts the broadcast licenses, other intangibles and goodwill balance in 2002.

[7] Adoption of FAS 142

Under Canadian GAAP, adoption of a new accounting standard is applied retroactively as an adjustment to retained earnings. Under U.S. GAAP, the adoption of FAS 142 is reflected in the statement of income of the adoption year. As such, under U.S. GAAP, the effect of the adoption of FAS 142 is reflected as a cumulative catch-up adjustment in income of fiscal 2002.

[B] CONSOLIDATED STATEMENTS OF CASH FLOWS

Under U.S. GAAP, cash flow from operations per share cannot be reported in the consolidated statements of cash flows.

[C] STOCK-BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25 in accounting for common share options granted to employees and officers for U.S. GAAP purposes. Had compensation expense been determined on the basis of the estimated fair values of the options granted in accordance with Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation", the net loss for the year ended August 31, 2002 would have increased by $7,243,000 to $173,280,000, or a loss of $4.07 per share [2001 – would have decreased by $5,305,000 to $125,081,000, or earnings of $2.99 per share].

The fair value of stock options granted in fiscal 2002 was $11,831,000 [2001 – $26,570,000] and is estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

Dividend yield	0.0%
Risk-free interest rate	4.88%
Expected life	5 years
Expected volatility	42%

[D] RECENT ACCOUNTING PRONOUNCEMENTS

[i] Impairment of long-lived assets

In August 2001, the Financial Accounting Standards Board ["FASB"] approved Statement No. 144 ["FAS 144"], "Impairment of Long-Lived Assets". FAS 144 requires that in cases where undiscounted expected cash flows associated with long-lived assets are less than their carrying value, an impairment provision is recognized in an amount by which the carrying value exceeds the estimated fair value of such assets. FAS 144 will be applicable for fiscal years beginning after December 15, 2001. The Company does not expect that the adoption of this pronouncement will have a material impact on its consolidated financial statements.

[ii] Accounting for costs associated with exit or disposal activities

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ["SFAS 146"], which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ["EITF"] Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity [including Certain Costs Incurred in a Restructuring]."

SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost as generally defined in EITF 94-3 was

recognized at the date of an entity's commitment to an exit plan. A fundamental conclusion reached by the FASB in SFAS 146 is that an entity's commitment to a plan, by itself, does not create an obligation that meets the definition of a liability in FASB Statement No. 6. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002 with early application encouraged.

The Company has not estimated the impact that this pronouncement will have on its consolidated financial statements.

26 government financing and assistance

Revenues include $1,893,000 [2001 – $1,800,000] of production financing obtained from government programs. This financing provides a supplement to a production series' Canadian license fees and is not repayable. As well, revenues include $1,224,000 [2001 – $791,000] of government grants relating to the marketing of books in both Canada and international markets. The majority of the grants is repayable if the average profit margin for the three-year period following receipt of the funds equals or is greater than 10%.

commitments

The Company has various long-term operating lease agreements for the use of transmission facilities and premises in each of the next five years and thereafter as follows:

[THOUSANDS OF CANADIAN DOLLARS]	$
2003	17,657
2004	16,654
2005	13,334
2006	12,286
2007	11,897
Thereafter	39,772
	111,600

Acquisition commitments are outlined in note 3 to these consolidated financial statements. Rental expenses recognized in operating, general and administrative expenses totalled approximately $10,460,000 [2001 – $10,433,000; 2000 – $3,556,000].

28 related party transactions

The Company has transacted business in the normal course of business with entities which are subject to common voting control and with entities over which the Company exercises significant influence. These transactions, measured at the exchange amount which is the amount of consideration established and agreed to by the related parties and having normal trade terms, are as follows:

[THOUSANDS OF CANADIAN DOLLARS]	2002	2001
Revenues		
Cable service subscriber fees and advertising	**96,511**	68,140
Sales representation fees	**1,923**	1,430
Production and distribution	**5,352**	4,462
Other	**600**	629
Expenses		
Digital music subscriber fees	**1,933**	3,264
Cable and satellite system distribution access fees	**5,153**	6,902
Administrative service fees	**1,824**	2,049
Amounts due from (to) affiliated companies are as follows		
Cable service subscriber fees and advertising	**15,962**	9,431
Sales representation fees	**959**	713
Production and distribution	**4,588**	3,738
Other	**184**	88
Digital music subscriber fees	**—**	(503)
Cable and satellite system distribution access fees	**(447)**	(654)
Program rights payable	**—**	(907)
Administrative service fees	**(49)**	(206)

Included in other investments [note 8] are loans of $2,678,000 made to certain executive officers of the Company for housing or investment purposes. The loans are secured by charges on the officers' personal residence and/or by related investment. The loans are non-interest bearing and are due between April 2, 2007 and October 31, 2012.

comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2002 consolidated financial statements.

directors and officers

directors

PIERRE BÉLAND
Montreal, Quebec

President, Metromedia Plus

JOHN M. CASSADAY [2]
Toronto, Ontario

President and Chief Executive Officer, Corus Entertainment Inc.

DENNIS M. ERKER [2][3]
Edmonton, Alberta

Partner, The FE Advisory Group
(a financial and estate planning company)

CLINTON C. FORSTER [4]
Victoria, British Columbia

President, Forvest Investment Inc.
(an investment company)

MICHAEL HIRSH
Toronto, Ontario

Chief Executive Officer, Nelvana Limited

DAVID JENSEN [1]
Englewood, Colorado

Vice President, Liberty Media

DAVID KOFF
Englewood, Colorado

Senior Vice President, Liberty Media

WENDY A. LEANEY [1]
Toronto, Ontario

President, Wyoming Associates Ltd.

DOROTHY ZOLF MCDONALD, PHD [4]
Toronto, Ontario

Corporate Director, former Associate Professor, Graduate Program in Communication Studies, University of Calgary and Visiting Professor, University of Alberta

CATHERINE ROOZEN [3]
Edmonton, Alberta

Director and Corporate Secretary of Cathton Holdings Ltd.

TERRANCE E. ROYER [1][2]
Calgary, Alberta

Executive Vice Chairman, Royal Host Corp.
(a hotel management company)

HEATHER A. SHAW [2][3]
Calgary, Alberta

Executive Chair, Corus Entertainment Inc.

JULIE M. SHAW [4]
Calgary, Alberta

Vice President, Facilities, Design and Management, Shaw Communications Inc., and Secretary, Shaw Foundation

officers

JUDY ADAM CA
Oakville, Ontario

Vice President, Controller, Corus Entertainment Inc.

PIERRE ARCAND
Montreal, Quebec

President, Quebec Radio

HAL BLACKADAR
Oakville, Ontario

Vice President, Human Resources, Corus Entertainment Inc.

JOHN M. CASSADAY [2]
Toronto, Ontario

President and Chief Executive Officer, Corus Entertainment Inc.

JOHN P. HAYES
Toronto, Ontario

President, Radio, Corus Entertainment Inc.

MICHAEL HIRSH
Toronto, Ontario

Chief Executive Officer, Nelvana Limited

KATHLEEN C. MCNAIR
Toronto, Ontario

Vice President, Business & Regulatory Affairs, General Counsel, Corus Entertainment Inc.

THOMAS C. PEDDIE CA
Toronto, Ontario

Senior Vice President and Chief Financial Officer, Corus Entertainment Inc.

JOHN R. (JACK) PERRATON
Calgary, Alberta

Secretary

PAUL W. ROBERTSON
Toronto, Ontario

President, Television, Corus Entertainment Inc.

(1) Member of the Audit Committee
(2) Member of the Executive Committee
(3) Member of the Human Resources Committee
(4) Member of the Corporate Governance Committee

corporate information

CORPORATE OFFICE

CORUS ENTERTAINMENT INC.

Suite 501
630 3rd Avenue s.w.
Calgary, Alberta
T2P 4O4

Telephone: 403.444.4244
Facsimile: 403.444.4202
Web site: corusentertainment.com

EXECUTIVE OFFICE

CORUS ENTERTAINMENT INC.

Suite 1630
181 Bay Street
Toronto, Ontario
M5J 2T3

Telephone: 416.642.3770
Facsimile: 416.642.3779
Web site: corusentertainment.com

INTERNET HOME PAGE

Corus' Annual Report, Annual Information Form, Quarterly Reports, Press Releases and other relevant Investor Relations information are available electronically on the Internet at corusentertainment.com

AUDITORS

Ernst & Young LLP

PRIMARY BANKERS

The Toronto-Dominion Bank

TRANSFER AGENTS

CIBC MELLON TRUST COMPANY
Calgary, Alberta
1.800.387.0825

CHASE MELLON SHAREHOLDER SERVICES, L.L.C.
New York, New York
1.800.526.0801

CORPORATE GOVERNANCE

Information concerning Corus' corporate governance policy is contained in the Information Circular and is also available by contacting the company.

FURTHER INFORMATION

Financial analysts, portfolio managers, other investors and interested parties may contact the company at 416.642.3770 or visit our Web site.

To receive additional copies of Corus Entertainment's Annual Report please fax your request to the Director of Communications at 416.642.3779.

Vous pouvez obtenir la version francaise du present rapport en communiquant par telecopieur avec le directeur des Communications, au 416.642.3779.

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held on December 10, 2002 at The Metropolitan Centre, 333 Fourth Avenue s.w., Calgary, Alberta

Berenstain Bears

© 2001 Nelvana Limited. Based on the books and characters by Stan and Jan Berenstain.

RPO – Rolie Polie Olie

© 2000 Nelvana Limited/Metal Hurlant Productions s.a.r.l.

Beyblade

© HUDSON SOFT/TAKARA • BEYBLADE PROJECT • TV TOKYO Licensed by d-rights Inc.

Sunday Night Sex Show

© W Network. Lifestyle Television (1994) Limited.

MOJO (Radio)

MOJO RADIO™ and © Corus Radio Company. All Rights Reserved.

Concept & Design

The Riordon Design Group Inc.
www.riordondesign.com

Principal Photography

Dan Lim Photography
www.danlimphoto.com

FOR MORE INFORMATION,
PLEASE VISIT US ONLINE AT:
WWW.CORUSENTERTAINMENT.COM